THE MORRIS PLAN OF INDUSTRIAL BANKING

BY

PETER W. HERZOG

PRIZE MONOGRAPH
CHICAGO TRUST COMPANY PRIZES FOR RESEARCH RELATING TO
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FOREWORD

In the awards for research in the field of business development and the modern trust company, first prize for monographs was, in 1927, awarded to Peter Herzog for a study called "The Morris Plan of Industrial Banking." "Bank Balances," a study by Professor Leonard Watkins, received the first award of the triennial prize of $2,500, and is published as a companion volume.

Mr. Herzog's study has to do with a phase of private finance which, under the general designation of "Morris Plan," had its beginning as recently as 1910. It was in that year that the first Morris Plan Bank was opened in Norfolk, Va. The Morris Plan banks have not only important social aspects, such as curbing of the loan-shark business and the encouragement of thrift in the broadest sense, but the very practical purpose of extending loan facilities to wage-earners, small merchants, and persons who have little or no credit standing in commercial banks.

The Morris Plan has been successful—so successful, in fact, that it has become a notable financial enterprise with parent companies, "holding" companies, subsidiaries, and all the structural ramifications by which financial magnitude is now measured. It has gone much further than the lending of money on business terms to people not rated by the credit agencies. It has financed installment sales, set up a securities corporation, organized a plan of industrial insurance, developed a general finance and acceptance business and, through the Morris Plan Corporation of America, provided a rediscount market for Morris Plan banks.

These developments Mr. Herzog has covered in his study, blending the statement with an interpretation which describes the place of the Morris Plan organizations in the economic scheme and measures their social significance.

The Committee of Award

PREFACE

THE financial structure of our society has been augmented in recent years by the development of industrial banking. Numerous independent and affiliated companies have grown up in this new field with varying degrees of success. Outstanding among the successful systems is that group of companies operating under the Morris Plan. It is to their consideration that this study is devoted.

Even within this particular group of industrial loan companies, operating differences produce difficulties in their study, fewer of course than would be met with in a study of the entire field of industrial banking. Comments made on this particular system apply to other systems as well since fundamentally they are similar although they may vary widely in detail.

The purpose of this study has been to show not only the evolution and methods of operation of the Morris Plan, but also the importance of these new institutions in filling a place in our modern credit structure.

Since the writing of this paper in the spring of 1927, matters of detail have naturally been subjected to changes. Most of these do not affect the fundamental principles of the Morris Plan that the author has sought to portray in this study, and accordingly, they may be overlooked. Mention is made, however, of important developments that it is believed are worthy of the reader's attention.

The author's thanks are due to R. O. Bonnell, W. D. Brown, J. B. Gilder, Dr. J. Ray Cable, and Ellen N. Herzog, whose assistance, in kindly furnishing information and counsel, has made possible this study.

PETER W. HERZOG

July 27, 1928

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I

INTRODUCTION

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WHERE does the Morris Plan of Industrial Banking fit into the present financial organization of our society? This question can best be answered by a brief study of the existing financial facilities of the average man, particularly the wage-earner, who makes up the larger part of our citizens.

There are two things of which we may be certain: first, that a large proportion of borrowing would be eliminated were all people invested with qualities of thrift, and secondly, that borrowing is the fundamental and undeniable privilege of the man whose right to live is inalienable, so long as our present economic status shall continue.

We may as well humbly admit that thrift is scarcely one of the cardinal virtues of the typical American, who sees his immigrant fellow-citizen live with comfort on a wage that means privation to him. The need for the inculcation of the habit of thrift into the rank and file of our citizenship needs no proof in this connection.

While it is no doubt true that if all men were provident and careful with their money, there would be less borrowing, we would be obliged to recognize that borrowing would still be a necessary recourse because of the exigency of fate which no man can foresee, and in the interest of economy itself.

THE "LOAN SHARK"

Should the financial needs of a community be inadequately filled by the existing banking facilities, an opportunity is

afforded for private persons to perform some of the neglected functions. Again certain pathological conditions in society may occasion and maintain the activity of such persons, even against the efforts of banks to serve the particular need and against the effort of reformers to eradicate what is usually an evil. The "loan shark" is one such person who specializes in personal loans.

"Loan shark" is the popular designation of a person who makes it a business to exploit, by charging extortionate interest, the real or fancied financial needs of individuals who have no other resource which they are willing or able to utilize. These professional money-lenders are of several types: The chattel loan-broker is one who takes as security mortgages on furniture, automobiles, household effects, or other personal property of the borrower. These mortgages are skillfully drawn to protect the creditor both as against the usury law and against default of the borrower. The salary loan-broker takes as security an assignment of the wages of the borrower, or, as a variation, he sometimes purchases the salary so as to evade the usury law. The third type of loan shark is the pawnbroker who purchases personal property from the needy at a low price and contracts to resell it to the borrower within a specified time at a specified higher price. The resale price rises rapidly in case prices are specified for several dates, the difference between the purchase price and the resale price always constituting a high rate of interest. The usury laws are thus usually evaded, for such a transaction is a contract of sale and not of loan, the borrower having the option of buying back the article if he so chooses. Other types and variations of these money-lending methods are in existence. Some brokers employ all the methods mentioned above, and, in addition, others.[1]

The business of these money-lenders is extremely questionable in character and is done under cover of secrecy and confidence. Extortionate rates of interest are charged.

[1] See Westerfield, *Banking Principles and Practice*, pp. 365-366.

The perfection of very reprehensible ways of collecting illegal charges and skillful processes for evading the usury laws by these brokers is generally recognized. The alleged high risks are more than sufficiently covered by the high rates, for the lender amply protects himself in various ways.

In 1909, when the Russell Sage Foundation took up the question through its Division of Remedial Loans, the money-lenders were at the height of their predatory prosperity. It may be safely said that the usurer was operating widely, filling a want and meeting a condition of need.[2] The frowns of centuries had not daunted him. He had multiplied as population had increased, and was still taking his profit—an outrageous profit it is true, as the borrower views it, but the fact that he was allowed to take it with but scanty interference demonstrates that he was firmly intrenched behind the necessities of the community.

GROWTH OF DEMAND FOR SMALL LOANS

Up until recent years, the small borrower, whether rural or urban, has been left for the most part without organized and dependable provision for his needs. Such a borrower has been compelled to find accommodation wherever and upon whatever terms he could. Here and there a bank might be found willing to do something for an occasional customer of this kind; but in general the small borrower has been obliged to have recourse to a loan from a generous friend, if such he had, to the exorbitantly expensive advances of the pawnbroker, or, worst of all, to the credit given by the loan shark upon unconscionable and soul-destroying terms. As banks in the larger cities have come to enjoy in greater measure the business of considerable commercial and industrial units, they have found it more and more unprofitable to handle the very small business and

[2] See "The Crusade Against the Loan-Sharks," *Munsey's Magazine,* Vol. 50, November, 1913, pp. 217-218, and Rogers, "American Unthrift," the *Atlantic Monthly,* Vol. 107, May, 1911, p. 694.

have grown less and less willing to trouble themselves with it. At the same time, the number of small borrowers, actual or potential, has been added to enormously by the advent of large business organizations. This army of salaried or wage-earning employees is precluded from borrowing on the ordinary commercial or financial basis by the very circumstances of its employment. Similarly, the rapid extension of the economic functions of government, whether national, state, or municipal, has multiplied the number of the members of the community, who, while having frequent occasion and justification for borrowing, are not in a position to obtain credit in the same manner nor on the same terms as can those who conduct independent business enterprises.

DIFFERENCE BETWEEN RURAL AND URBAN BORROWERS

There is, generally speaking, a considerable difference between agricultural borrowers and salaried or wage-earning urban workers who desire small loans. The former, as a rule, have land, crops, or other property pledgeable as security for loans made them; the latter, with almost equal universality, have nothing but their character and earning ability to offer. By means of Federal legislation, local bank aid, and mercantile assistance, much has been done toward establishing better credit facilities for our rural population. But until recent years, the case of the small urban borrower has been singularly neglected.

In speaking of small urban borrowers, it is not intended to refer to that portion of the people in our urban communities, who, unable to support themselves, must lean more or less upon charity, open or disguised. On the contrary, what we have in mind is that great body of salaried or wage-earning urban workers which is just as independent, just as self-respecting, just as trustworthy, and just as business-like within its own sphere, as are the merchant, the manufacturer, and the banker within theirs. This body of

workers is composed of clerks, bookkeepers, employees in stores and factories and on railroads, stenographers, school teachers, policemen, firemen, other employees of the municipal, state, or Federal governments, telephone and telegraph operators, bank and insurance company employees, in short, it is composed of far the greater part of our urban population. It may be added, that not a few shopkeepers and manufacturers belong substantially to this same class.

RIGHT OF SALARIED MAN TO BORROW

Urban workers in these occupations are generally lacking in the customary resources against which the established business man obtains credit. They have character and earning power, but are without tangible assets which may be instantly converted into cash for the repayment of a loan. Yet they not infrequently have just as legitimate a need and a proportionate ability to pay for credit as has the business man. The economic life of the merchant is the turnover of goods from whose purchase and sale he derives a profit; and he freely employs credit to increase the effectiveness of this process. The economic life of the salaried or wage-earning worker is the turnover of services for which he is paid as he renders them; and if circumstances arise under which a suitable use of credit will add to the effectiveness of those services, it is to the advantage of everyone that he should have and use that credit.

What misleads the thinking of a great many persons in this connection is the assumption that the money in hand paid to the worker for a salary or wage, in return for services already rendered, constitutes the sole legitimate present income of the worker, under any and all conditions, just as the net profits from his business or the net return from his investments constitutes the sole legitimate income of the business man; and that "living within one's income" means never drawing upon future earnings, future profits, or future investment returns for present use, no matter how great

the advantage may be in so doing. Yet everybody knows that business men do continually draw upon their future profits or their expected investment returns to meet needs of the moment, and that they do not hesitate to employ credit for the purpose. It would be difficult to justify the contention that what is regarded as entirely legitimate for the business man is totally illegitimate for the salaried or wage-earning worker.

THE BUSINESS PRINCIPLES ESSENTIAL TO SOUND CREDIT

The essential question is not with regard to the propriety of such a use of credit as has just been described, but with regard to the business conditions which are observed in the use of credit. The business man must proportion the amount of the credit he seeks and obtains to his present resources, to a conservative estimate of the course of his affairs and to the profits or returns he can confidently count on. The salaried or wage-earning worker must proportion his use of credit to his established earning capacity, to the safely calculable conditions of his work and to the safeguards he can throw about his loan to insure its repayment in case his calculations go astray. Throughout, business principles must govern; there is a greater chance for success with no taint of charity or philanthropy in the credit arrangement. Business man and worker alike should pay, for the credit they require and obtain, whatever is reasonable compensation to the lender, taking into account all the circumstances, conditions, and risks of the loan. In this way only can the independence, self-respect, and economic responsibility of the borrower be maintained.[3]

Fortunately, this is the very basis upon which the great majority of salaried and wage-earning workers desire to obtain such credit as they need. Such a principle is diamet-

[3] See Deller, "The Place of the Morris Plan of Industrial Loans in the Organization of Credit for Small Borrowers," the *Economic World*, Old Series Vol. 97; New Series Vol. 11, March 11, 1916, pp. 334-338.

rically opposed to the plan of operation of the loan shark, against whose evils three correctives have been used: (1) Campaigns of publicity through the newspapers; (2) legislation on the one hand so penalizing usurious lending and sharp practices as to make them an extra hazardous occupation; and on the other hand legislation permitting decent substitutes to be established; and (3) the organized defense of loan-shark victims through legal-aid societies.

SUBSTITUTES FOR THE LOAN SHARK

Substitutes thus far set up to occupy the place in the credit structure of the United States, in which the loan shark has preyed, are of the several types enumerated below:

1. Substitutes of a purely philanthropical nature, such as funds created by religious or fraternal orders for loaning to needy members free of interest, unorganized and spasmodic financial aid extended by employers in certain "worthy" and "urgent" cases, or permanent loan funds operated by employers through welfare departments.
2. Semiphilanthropic societies, which, while established primarily for the sake of the borrowers, are run upon business principles. The best examples of these are the provident loan associations that are members of the National Federation of Remedial Loan Societies.
3. Self-help societies, which include the many varieties of cooperative credit unions or Peoples' Banks, and the work of local labor unions.
4. Purely business societies, which, while doing an unquestioned social service, aim particularly at profits and keep within the usury laws. Among these are the systems of "industrial banking," foremost among which is the Morris Plan to which our attention will be devoted in this discourse. "Industrial banking" means simply the extension of credit, ordinarily in moderate amounts, at legal rates of interest, to those who have regular salaries, wages, or income, possessed of good character, but having no collateral gen-

erally acceptable to commercial or savings banks, and who desire to liquidate their obligations by regular payments adapted to their ability to pay, and the selling of investment certificates at the counter to this class of people and to other investors, bearing interest usually in excess of commercial or savings banks rates.

PRINCIPLES UPON WHICH PERSONAL LOANS ARE GRANTED

The principles upon which the representative industrial banks and loaning agencies grant personal loans are quite as comprehensive as those underlying credit extension by the commercial banks.

1. Understanding of the occasional stress which confronts people of integrity and good intentions.

2. Belief that wise borrowing is an encouragement to thrift and industry. Our economic wealth is enhanced by increasing the economic welfare of the borrower.

3. Conviction that careless use of credit serves to aid extravagance and proves disastrous both to the borrower and to the lender.

4. Appreciation that the terms and conditions of loans must be designed to fit the situation of the borrower.

It may be argued by some bankers and business men that individuals should under no circumstances borrow money, and that if distressing circumstances come they must suffer on account of improvidence. Yet many of these splendid citizens will contribute generously to charitable organizations. So long as American business will capitalize its future powers and possibilities for future development, and so long as the state will anticipate the right of taxation by issuance of long-term credit instruments, just so long will the average man, who composes the state, and who helps produce and consume the products of industry, follow the leaders in a natural way and within certain bounds enjoy, if he can, present comforts at the expense of future ability and hopes of increased earnings.

The proper management and maintenance of industrial banks and loaning agencies should be regarded as a salutary supplement to banking machinery and commercial enterprise. Doctors possess buying power when their bills are paid. Hatred usually does not course through the veins of property owners. Extravagance may be halted if its deleterious effects are properly explained. Pride is surely stimulated by the meeting of one's own "promise to pay." And belief in the goodness of life is enhanced by the ownership of investment securities.

II

ARTHUR J. MORRIS

The "Peoples' Banks" of Europe. Other cooperative banking systems. Cooperative banking compared with the Morris Plan. The Morris Plan compared with the Scotch cash-credit system. The cooperative principle in America.

THE man who is accorded credit for the organization of industrial banking in the United States is Arthur J. Morris. Born in Tarboro, North Carolina, on August 5, 1880, he received his early education in Norfolk, Virginia, and then entered the University of Virginia, graduating from his college course in 1899 and in 1901 from the law school.[1] He began his practice at Norfolk a few months later, specializing in banking law.

Following a brilliant college record, Morris made a success of law from the start, and was soon acting as legal adviser of several banks. This was a service that brought him face to face with the small-loan problem, toward the solution of which he was later to devote a large portion of his time. Often a workman, a small-salaried man, or merchant in financial difficulties would appeal to him to use his contact with the banks to secure accommodation for them. Here he learned that the banks often could not afford and did not care to bother with small loans.

Pondering over this situation, Morris finally came to the conclusion that any country denying to such a large number of its citizens the opportunity of borrowing money in time of need, had a weak spot in its banking system. In hope of finding some solution to the problem, and some acceptable basis upon which the wave of loan-shark agitation that was sweeping the country could be put to work, Morris began

[1] *Who's Who in America,* Vol. 13, 1924-25, p. 2325.

to make a detailed study of the banking laws of the various states, the charters and by-laws of banks, and the most authoritative books on finance, for he believed some type of banking institution could be evolved that would correct the existing evils and supply credit to the needy.

THE "PEOPLES' BANKS" OF EUROPE

It is said that the young banker-attorney found additional study in the "Peoples' Banks," particularly those of Europe, by which the problem of small loans had been solved, or at least a fairly satisfactory approach toward solution made. Whether this possible source was used or not is a question that must remain unanswered, but that admirable systems existed which may have supplied principles applicable to American conditions is a known fact. Foremost among these were the Raiffeisen and Schulze-Delitzsch Banks conceived in Germany, the Scotch "Konto-Kurrent" or "cash-credit" systems, and the Peoples' Banks of Italy.

The principles of the Schulze-Delitzsch Peoples' Banks have remained substantially the same since their inception. They are as follows: (1) The exclusion of charity and patronage—the society was to be run on business principles; (2) the joint liability of all members for the debts of the society; (3) systematic borrowing or acceptance of deposits on the basis of this joint liability; (4) loans only to those who could use them productively; (5) regular contributions by members toward the society's working capital; (6) later another was adopted: namely, an inclusive membership, that is, a membership open to all worthy credit seekers, not limited to any one occupation, social class, or even to too small a geographical area.

OTHER COOPERATIVE BANKING SYSTEMS

A detailed study of the operation of the Schulze-Delitzsch, the Raiffeisen, or the Luzzatti Banks, the last named being

an adaptation of both, need not be presented here.[2] All were organized as joint stock companies on the cooperative principle. A similar society formed by Alphonse Desjardins, in 1900, at Levis, a suburb of Quebec, Canada, is to be noted here since "honor loans," based entirely on personal security, were made a regular part of their business.

Cooperative banking, in its various forms, is found in countries in every part of the world. History proves, however, almost without exception that institutions receiving state aid have been unsuccessful in point of service rendered and profits made. Charitableness too often leads to shiftlessness on the part of the recipient, and state aid smacks too much of paternalism. The business basis has proven its worth.

COOPERATIVE BANKING COMPARED WITH THE MORRIS PLAN

Let us compare, in brief, certain features of cooperative banking with those of the Morris Plan as it exists today to point out principles which might have been adapted to American conditions in the formulation of the Morris Plan.

In several respects the Morris Plan companies resemble the European "Peoples' Banks." First, both systems lend moderate sums at a moderate rate of interest, and both specialize in lending on personal security. Second, both practice the philanthropic side of their business, such as combating loan sharks, teaching punctual payment, and encouraging thrift. Finally, they neither conduct their business for charity nor receive financial aid from a public source, but earn their fair return in a business way.

On the other hand, there are certain points of difference between the Morris Plan and the Peoples' Banks. First, the Morris Plan transacts business on the basis of private capital stock, while the European types transact theirs on the cooperative principle. Secondly, the former extend

[2] For the most inclusive works on cooperative banking, the reader is referred to Wolff, *Peoples' Banks*, and Tucker, "The Evolution of Peoples' Banks," *Columbia University Studies*, Vol. 102, No. 1.

credit to all qualified borrowers, while in general, the latter lend only to their members.

Characteristically American are certain of the business methods of the Morris Plan. Weekly payments on loans have been designed to meet the customary weekly payment of wages in America, while life insurance to protect the borrower's indorsers is but an evidence of the spread of our business integration.

THE MORRIS PLAN COMPARED WITH THE SCOTCH CASH-CREDIT SYSTEM

Between the Morris Plan method of lending and the Scotch cash-credit system there are also similarities. In the first place, they are both based on the personal security of the borrower with two endorsers. In addition, they both charge a comparatively low rate of interest, and both possess the elements of convenience, elasticity, and educational value. The Scotch cash-credit is recognized as having enabled many men of enterprise and integrity to make a start in the world without waiting to accumulate capital from earnings, and to take advantage of a business opportunity which could not be undertaken unless funds were secured to carry out the operations. It has been said that credit is rightly in the main based upon personal security, for that provides the least hampering, the most elastic, and most educating form of credit.[3] The Morris Plan has as great opportunities in this field as has the Scotch cash-credit. There are essential similarities between these two.

However, the Morris Plan differs from the Scotch system in certain respects. Among these we find that the Scotch endorsers have the right to examine the borrower's books to see if his business is in good condition by notifying the bank to call in the loan whenever they believe the borrower is not conducting his business properly. The Morris Plan endorsers do not have such a privilege. Again, according to

[3] Wolff, *Peoples' Banks.*

the Scotch method, the borrower may withdraw only the amount he needs for his business, leaving the balance at the bank, and by depositing his daily receipts, pay interest only for the amount actually used. Under the Morris Plan, the borrower must pay a service fee and his interest in advance, begin the weekly payment of 2% of the loan in one week, and continue such payments through the fiftieth week.

THE COOPERATIVE PRINCIPLE IN AMERICA

All of the European types of Peoples' Banks are conducted on some form of cooperative principle, admirably suited to the condition of European workers who are traditionally grouped more closely together as a class, and who, by the growth of custom and habit, have developed a greater socialistic and cooperative sense than has the American worker. Consequently, such a plan in its unadulterated form is not fitted for application to such a degree of success in America where conditions are at a variance. Here we find the idea of cooperation to be a relatively new thing. The idea of individual independence, though, undoubtedly, giving way to a greater social sense, continues to be the predominating feature of American thought. This follows from our earlier days of greater freedom for individual initiative and small-scale business. Hence modifications of the European small-loan scheme were essential if it were to be used as the basis for a system in America. It is evident, however, that there existed features worthy and fitting for application to American conditions.

III

THE MORRIS PLAN

The Fidelity Savings and Trust Company of Norfolk, Virginia. The comakers endorsement of the Morris Plan Loan. The original plan of lending. The treatment of delinquencies. Sources of a Morris Plan institution's working capital. Modifications of the original plan of lending.

FROM his studies, Arthur J. Morris evolved the basic principles of the new system of banking he proposed to found. Roughly tabulated, these principles were three in number:[1]

1. Character, plus earning power, is a proper basis of credit.

2. Loans made on this basis of credit must carry the privilege of repayment over a period long enough to match the earning power of the borrower.

3. Money so borrowed should always be for some constructive and useful purpose.

The characteristic given the Morris Plan by its immediate father was that soundest of economic principles which requires the setting up, out of current income, of a proportionate reserve to meet an obligation at maturity—in the case of the Morris Plan, requiring the borrower to deposit out of his weekly or monthly salary, over a period not to exceed a year, an amount which will equal his loan at maturity.

That the loan should be made only to meet some economic need is the feature that protects the borrower from extravagance and the bank from unnecessary risk.

Morris conceived that it is useless to loan money unless as it is paid back, the borrower is taught thrift and started

[1] From Crowell, "A Man Who Has Loaned Money to Millions of People." Reprint from *American Magazine*, Vol. 91, March, 1921.

on the road to financial independence. This he sought to accomplish by the weekly payment principle and the opportunity to invest small sums in the bank itself.

It was also decided that the proposed system should have no semblance of charity. It was to be a straight business proposition, with loans made at rates economical to the borrower and at the same time profitable to the lender. Morris felt that he could make money with such a scheme as well as perform an important economic function.

THE FIDELITY SAVINGS AND TRUST COMPANY OF NORFOLK, VIRGINIA

In due time, Morris was ready to give his plan a test. Approaching a number of prominent business men of Norfolk, as well as Messrs. Garnett and Cotten, his law partners, he was able to convince them that his conceptions were, at least, worth trying out. Arrangements were made to open the new institution with a capital of $20,000.

With this foundation laid, Morris then wrote to the State Corporation Commissioner, a personal friend, applying for a charter. The radical nature of the proposed institution, as compared with existing loan institutions, may best be judged from the reply he received.[2]

> Dear Arthur: I have carefully considered your application for a charter for your hybrid and mongrel banking institution. Frankly, I don't know what it is. It isn't a savings bank; it isn't a state or national bank; it isn't a charity. It isn't anything I ever heard of before. Its principles seem sound, however, and its purposes admirable. But the reason that I am going to grant a charter is because I believe in you.

Accordingly, on March 23, 1910, the first banking company to operate under what later came to be known as the "Morris Plan" opened its doors as the Fidelity Savings and Trust Company, of Norfolk, Virginia.[3]

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[2] Crowell, Article cited.

[3] Gilder, "The Morris Plan at Youngstown," *American City*, Vol. 15, December, 1916, p. 684.

The office force was almost nil. The space occupied was part of two small rooms on the sixth floor of an office building. During the early days, Morris and the other directors made it their business to pass personally on each application for a loan.

But the fame of the new character-credit institution spread rapidly. Though supposedly only a practical business institution, it soon became evident that it produced astonishing by-products of humanitarianism. One of the first indications of this was a wail of anguish from the loan sharks of the city. People whom they had hitherto fleeced with impunity began to deal with the Morris bank.[4]

During its first year the Fidelity Savings and Trust Company, now called the Morris Plan Bank of Norfolk, loaned some $45,000 to 323 borrowers,[5] and in two years, it had loaned more than $130,000.[6] In 1913 the capital was raised to $40,000.[7]

THE CO-MAKERS ENDORSEMENT OF THE MORRIS PLAN LOAN

In the development of his new system, Morris held fast to the belief that character, plus earning power, was the best sort of security. There were, however, certain practical details that had to be put into effect to meet existing conditions. One of these was that the borrower must secure two co-makers on his note—friends who would guarantee its payment. The only requirement was that the two co-makers should be well acquainted with the borrower. They need have no financial resources, but must, in turn, have character and steady earning power, in short, they must be as good as the borrower.

The co-makers' endorsement meant the saving of extra time and expense in sifting evidence bearing on the prospec-

[4] Crowell, Article cited.

[5] *Commercial and Financial Chronicle*, Vol. 121, Part II, October 24, 1925, p. 1999.

[6] Lu, *The Morris Plan Company of New York*, p. 14.

[7] *Idem.*

tive borrower's character. Technically, the co-makers were to be held responsible for the payment of the loan if the borrower failed. However, as a practical student of banking, Morris realized that his whole system would be rejected if it ever became necessary for more than a very small number of the co-makers to lose because of their endorsement. Incidentally, their actual losses have been almost negligible.[8]

THE ORIGINAL PLAN OF LENDING

The original plan for making loans is as follows: The prospective borrower calls at the application department of the Morris Plan bank and files application for a loan. Morris Plan banks are not pawnshops and do not accept pawns, chattel mortgages, or salary assignments as security for loans.[9] They loan to any person of good character and habits who can get two responsible people to endorse his note. These two endorsers or co-makers are expected to have a situation and income at least as good as the borrower's own.[10] The application certificate covers the character, financial record, and responsibility of each party, and facts as to his employment and wages.

The corporate funds of a Morris Plan institution are secured by means of three types of certificates. The Class A certificates are merely the capital stock. Class B are full-paid certificates bearing 5% or 6% interest, and are analogous to the ordinary time deposit certificates of commercial and savings banks. Class B certificates have been supplanted by the 5% investment certificates of the present day which are also offered on a regular payment plan. The Class C, or installment investment certificates, bear interest after the twenty-fifth payment unless hypothecated, in which case they do not bear interest until fully paid and changed to a Class B obligation.

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[8] Crowell, Article cited.

[9] The *Morris Plan of Industrial Loans and Investments*, Published by Industrial Finance Corporation, New York, p. 10.

[10] Moulton, *Financial Organization of Society*, p. 708.

The original plan of lending follows along these lines: If the application satisfied the loan committee, the borrower and his endorsers signed a joint and several note, pledging as security an installment investment certificate, or, as otherwise called, the Class C certificate. The note usually runs for one year, never for a longer period. The cashier of the bank pays the borrower the face of the note less the legal rate of interest in that state and a small service charge to cover the cost of investigations. For every $50 or part thereof that is loaned, the borrower subscribes to one Class C installment investment certificate which has a value of $50. When the note is executed, this certificate is assigned to the company and becomes security for the note and a protection for the co-makers.

The borrower does not pay on the loan. He becomes an investor in this certificate and applies installments thereto at the rate of $1 a week for 50 weeks on each Class C certificate subscribed for in this manner. At the end of 50 weeks his payments on the Class C certificate equal the amount of his loan. Two weeks later, when the loan is due, the borrower may cash his Class C certificate at the bank and repay his loan with the proceeds. Or he may accept options offered by the bank that will provide otherwise for the repayment and afford him the opportunity of becoming an investor in the Class B certificates by exchanging his Class C for Class B certificates.[11] Class B certificates are the full-paid investment certificates that bear 5% or 6% interest. Interest is credited them twice yearly, as in the case of ordinary savings bank deposits.

THE TREATMENT OF DELINQUENCIES

If, during the period of the loan, and while the borrower is paying for his Class C certificate, he fails to make a payment on time, it is the practice of the Morris Plan institutions to fine him a small amount, and notify him of his de-

[11] *New York Times*, July 19, 1915, p. 6.

linquency. The New York courts have upheld the right of the companies in that state "To impose a fine of five cents for each default in the payment of $1, or fraction thereof—upon a certificate assigned as collateral security."[12] If the borrower gets a week or so behind, his co-makers are notified. They may be relied upon to see that he catches up again if he can. If he fails to do so, they must take his place in making the weekly payments after a reasonable time, or else the note in full becomes due. When all other methods of collecting fail, legal action follows to recover from the joint and several makers of the note.

If the applicant should be the owner of a Class B certificate, this would be available as security for a loan, in which case no endorsements would be necessary, and the preferential Morris Plan rate for collateral loans, usually 6%, would be charged. "Many a man who begins as a borrower ends by becoming an investor in interest-bearing Morris Plan certificates; but one does not have to be a borrower in order to buy them."[13]

SOURCES OF A MORRIS PLAN INSTITUTION'S WORKING CAPITAL

The initial capital of Morris Plan institutions is provided by an issue of Class A certificates, or capital stock, which alone carries the voting privilege. Additional capital is secured from the Class B, or 5% investment certificate, sold to customers and from the regular payments on the Class C certificate. Additional funds are sometimes secured by loans from commercial banks.

That savings accounts, or certificates of indebtedness, are an indispensable part of an industrial bank's activities is seen in the high rate of interest offered on Morris Plan certificates as compared with savings and commercial bank rates on deposits. Undoubtedly this practice pays in some

[12] *Morris Plan Company of New York, v. Currie, et al.*, 161 New York. Supplement 292.

[13] Gilder, "An Anti-Loanshark Institution," the *Independent*, Vol. 110, June 9, 1923, p. 385.

manner or they would not be doing it. Savings are not cheap money, but are inexpensive and valuable advertising. Money borrowed from other sources may be cheaper in dollars and cents, but the bank with a large savings department is the more popular bank for the borrowers and gets the higher class of loans and an easier earned net profit.

In speaking of deposits, the use of the term in regard to the Morris Plan must not be interpreted in the ordinary sense. But few of these institutions, principally those in Ohio which are incorporated as "special plan" banks, may receive deposits as such. Others give certificates of indebtedness for funds left with them. Legally there is a difference, but practically there is no essential distinction between the "deposits" of some institutions and the "certificates of indebtedness" given for invested funds by others.

MODIFICATIONS OF THE ORIGINAL PLAN OF LENDING

The operation of the Morris Plan described above was carried on when the idea was first put into practice. Whether the law of the state in which the Morris Plan institution is located permits it to be organized under the general corporation law, under the banking law, or under special acts governing industrial banks has much to do with its form of organization and loaning operations. For instance, in some states to advertise for or to receive deposits is not permitted of institutions such as the Morris Plan which have been formed under the general corporation laws. It is doubtful if a single Morris Plan institution of today exactly follows the method of operation described above. But regardless of modifications and additional provisions, the fundamentals of the procedure, as explained, remain essentially the same. Organization and methods of the individual institutions have been modified to suit the local conditions of the community served. Some of these modifications will be shown in discussing the operations of the Industrial Loan Company of St. Louis.

IV

DEVELOPMENT OF THE SYSTEM

The Atlanta Loan and Savings Company. Establishment of other Morris Plan institutions. Formation of the Industrial Finance Corporation. Purposes of the Industrial Finance Corporation. The men behind this new project. A restatement of the corporation's policy. Contractual relations of the Industrial Finance Corporation to the Morris Plan institutions. Other relations of the parent company to the local institutions. Formation of the Morris Plan Company of New York. Growth of the Morris Plan Company of New York. Legal opinion of the Morris Plan. Establishment of other Morris Plan institutions.

WITH letters coming in from various parts of the country, some requesting information, others asking for the establishment of similar banks, Mr. Morris decided that it was time to widen his activities. Accordingly, he made a trip to Atlanta, Georgia, to see if a field for his plan existed there.

THE ATLANTA LOAN AND SAVINGS COMPANY

W. Woods White, who had long been prominent in fighting loan sharks in that community, was the man Morris consulted. From their conference was born the Atlanta Loan and Savings Company, which began business on June 11, 1911, with an original issue of $50,000 of capital stock.[1] Mr. White, its first president, all the other officers but the secretary-treasurer, and the directors were to receive no remuneration.[2]

At the Atlanta institution, important steps toward the perfection of the system were made. Every applicant for a loan was required to fill out a blank containing not only his name and the names of his two endorsers, the sum he wished to borrow, his income, and his state of health, but he also

[1] Crowell, "A Man Who Has Loaned Money to Millions of People," the *American Magazine*, Vol. 91, March, 1921.

[2] Eaton, "A Poor Man's Bank," the *American Magazine*, Vol. 77, February, 1914, p. 73.

had to state if he was married, who was dependent upon him, exactly what he wanted the money for, and had to give a detailed statement of all his debts and current expenses.[3] Loans were made to no one who could secure regular bank credit, and the bank worked to get all its borrowers out of debt, seeing to it that the money borrowed was used for exactly the purpose set forth on the application.

During its first year the Atlanta bank made 1,155 loans amounting to $149,057.[4] As its success continued, its capital was later increased to $75,000.[5]

ESTABLISHMENT OF OTHER MORRIS PLAN INSTITUTIONS

Following the Atlanta success, the new system was investigated by leading citizens of Baltimore, and on February 1, 1912, the Mutual Loan Company, now the Morris Plan Bank of Baltimore, was organized. The next cities to fall in line were Washington, D. C., and Richmond, Virginia, whose respective banks began business on July 10 and July 17, 1912.

The first four of the Morris Plan institutions, at Norfolk, Atlanta, Baltimore, and Washington, were organized under the direction of Mr. Morris and of his law firm, Messrs. Morris, Garnett, and Cotten.[6] That it was the original plan of Mr. Morris to develop a system designed to displace the loan shark is clearly evidenced by the application of the system to the National Federation of Remedial Loan Associations in 1916 for admission. The Morris Plan was not approved, however, particularly because of its newness and fear that it would not prove workable.[7]

Despite whatever bad features the Morris Plan might

[3] Eaton, Article cited.

[4] Crowell, Article cited.

[5] *Idem.*

[6] According to letter from J. B. Gilder, Secretary, Industrial Finance Corporation.

[7] See "The Organized Fight against the Loan Shark," the *Survey*, Vol. 36, August 12, 1916, p. 497.

have had and may still have, the popularity and growth of the system have continued. In organizing these first four companies, Morris found it necessary to take stock in them, and soon learned that the development of the plan was beyond his financial means.[8] Accordingly, the first organizing company of the Morris Plan, the Fidelity Corporation of America, designed to hold stock in these institutions, was organized on July 15, 1912, with Mr. Morris as president and Mr. Fergus Reid as first vice-president.[9] The assets and responsibilities of Morris and his law firm, so far as they related to the Morris Plan, such as copyrights of literature, stock in companies already organized, and all rights to the trade names by which such companies were becoming known; that is, "Morris Plan of Industrial Banks," "Morris Plan of Industrial Banking," or simply "Morris Plan," were turned over to the Fidelity Corporation, capitalized at $300,000 with which it was expected to be able to carry on the expansion policy.[10]

So great was the demand for new companies, however, that after the formation of nine more at Richmond; St. Louis; Memphis; Charleston, South Carolina (an unsuccessful institution which was soon liquidated); Columbia, South Carolina; Springfield, Massachusetts; Denver; Philadelphia; and Lynchburg, Virginia, it was soon felt that the resources of the Fidelity Corporation of America were inadequate to carry on the desired growth.

FORMATION OF THE INDUSTRIAL FINANCE CORPORATION

Rumors of the formation of a great chain of banks under the control of Julius Rosenwald, Dr. E. R. L. Gould, Andrew Carnegie, and Vincent Astor for the purpose of loaning small sums to working people were current at the beginning

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[8] *Industrial Finance Corporation* v. *Community Finance Company., et al.*, 294 Federal Reporter 870.

[9] Letter from J. B. Gilder.

[10] *Industrial Finance Corporation* v. *Community Finance Company et al.* 294 Fed. Rep. 870.

of 1914.[11] Both Mr. Rosenwald and Dr. Gould were credited with having made a study of the European Peoples' Banks in hope of adapting certain of their principles to the proposed scheme. Whether this anticipated movement embodied the Morris Plan, or was to be something different, is a question that remains unanswered. But these four men immediately thereafter became prominent in the formation of the Industrial Finance Corporation, the next step in the development of the Morris Plan.

Nation-wide attention was first directed to the Morris Plan when it was announced that the Industrial Finance Corporation had been formed under the laws of the Commonwealth of Virginia on February 16, 1914, with an authorized capital of $5,000,000 preferred and $2,000,000 common stock, of which $1,000,000 of the preferred and $500,000 of the common were subscribed at that time.[12] All of the assets, including copyrights and goodwill, of the Fidelity Corporation of America were acquired by the new company whose head office was to be in New York City.

PURPOSES OF THE INDUSTRIAL FINANCE CORPORATION

According to the certificate of incorporation of the Industrial Finance Corporation, the purposes for which the corporation was organized are:

> 1. To organize, establish, finance, audit, supervise and otherwise aid the formation of corporations. . . . whose aims and purposes shall be:
>
> *a*) To provide for the worthy wage-earner, where the need of the loan is apparent, opportunity for borrowing small sums of money, without the necessity of submitting to the extortion of unscrupulous money-lenders, but at rates which are reasonable to the borrower and yet fairly remunerative to capital.
>
> *b*) To enable the wage-earner to secure such moneys largely upon the faith of endorsements and guarantees and without the

[11] See "To Pull the Loan-Shark's Teeth" in the *Literary Digest*, Vol. 48, January 17, 1914, p. 94, and the *St. Louis Globe-Democrat*, January 3, 1914, p. 3, and January 4, 1914, Part III, p. 2.

[12] Letter from J. B. Gilder.

often embarrassing and burdensome requirements of a pledge of chattels as collateral security for repayment; and also

c) To provide opportunity for the systematic investment of small savings, bearing a higher rate of interest than is now feasible, and affording a basis for the securing of credit and thus to encourage thrift.

And it is the judgment of the directors and incorporators of this corporation that the carrying out of the foregoing purposes, in addition to these immediate benefits, will operate to put an end to much needless and injurious agitation and resulting dissatisfaction concerning financial and industrial conditions generally and foster a more intelligent and mutually advantageous understanding between labor and capital.

2. To purchase or otherwise acquire, sell, dispose of and deal in real and personal property of all kinds. . . . and to carry on any business, concern, or undertaking so acquired, provided such business is authorized by this charter and permitted by law. . . . and to hold, purchase, mortgage, and convey real and personal property without limit as to amount, except as herein stated, but always subject to local laws.

3. To purchase, own, sell, acquire, or otherwise deal in as principal or agent, bonds, stocks, and other securities and properties of any kind or description. . . .

4. To lend money on such terms and conditions and on such security, real or personal, as its board of directors or duly authorized managing body may determine, and as may be permitted by law. . . .

THE MEN BEHIND THIS NEW PROJECT

Dr. Gould was elected chairman of the board; Mr. Morris, president; Eugene H. Outerbridge, Raymond Du Puy, and Stephen C. Millet, vice-presidents; J. B. Gilder, secretary; and Charles H. Sabin, treasurer.

Among others on the board of directors were certain men to whom Mr. Morris attributes much of the responsibility for the success of the Morris Plan. These men were Charles H. Sabin, then vice-president of the Guaranty Trust Company, of New York; John Markle, the largest independent anthracite coal operator in the country; Henry R. Towne, founder of the Yale and Towne Manufacturing Company; Willard R. Straight, formerly of J. P. Morgan and Com-

pany; Newcomb Carlton, president of the Western Union Telegraph Company; Herbert L. Satterlee, Esq., of the firm of Satterlee and Canfield; Hon. Harlan F. Stone, formerly of Satterlee, Canfield, and Stone, now Justice of the Supreme Court of the United States; and Raymond Du Puy, formerly president of the Virginia Railways.

The formation of the Industrial Finance Corporation received great commendation from the press. The *Wall Street Journal*[13] suggested the new system of banks under its leadership as a complement to the Federal Reserve System. The *Bankers' Magazine* in speaking of the Industrial Finance Corporation said:

> This enterprise is certainly a laudable one, and backed up by men of capital and successful business experience, it is reasonably certain to accomplish the ends for which it is designed. . . . We are rapidly building up a financial and banking system in this country—the Federal Reserve banks, land credit banks, and the loan association just referred to, all constitute important links of the chain.[14]

A RESTATEMENT OF THE CORPORATION'S POLICY

When the Industrial Finance Corporation was formally organized and began operations on June 1, 1914, not only were important changes made in its board of directors and financial backers, but instead of being described as a union of business and philanthropy, it was admitted to be a purely business venture. It was added, however, that it might have important "sociological results" as an effective weapon against the loan shark. In the reorganization, Clark Williams, former New York state controller and superintendent of banks, became president. Mr. Williams made it a matter of virtue that the corporation would be run frankly as a business enterprise. This he declared, was necessary to give it permanence and stability. He admitted that the cor-

[13] November 21, 1914, p. 8.

[14] Vol. 88, No. 3, March, 1914, pp. 280-281. Ed., *Loans to Small Borrowers at Fair Rates.*

poration, whose banks would not make loans of less than $50, would not rob the loan sharks of those who desired smaller sums, but he said that the lowering of the minimum in due time to $25 was anticipated. This has been done. In fact, the Industrial Loan Company of St. Louis makes loans as small as $15.

CONTRACTUAL RELATIONS OF THE INDUSTRIAL FINANCE CORPORATION TO THE MORRIS PLAN INSTITUTIONS

The Industrial Finance Corporation immediately embarked upon the expansion policy for which it had been designed by subscribing to the stock of every new Morris Plan institution formed, taking some 10% to 25% in each, the rest of the stock being owned by local interests. In a small number of recently organized companies, the Industrial Finance Corporation has not taken a portion of the stock, but has made a contract with the new company for the payment of a franchise fee for the Morris Plan rights. Contractual relations have, at present, entirely supplanted the practice of stock subscription in the formation of new Morris Plan institutions, although the parent corporation continues to be a large stockholder in several of the early banks. This early expansion in the manner shown developed the corporation into the form of a holding company. It did not, however, acquire a controlling interest, but recognized the principle of local control for each institution as being necessary for its successful operation.

The Industrial Finance Corporation's share of dividends from its investments in the local Morris Plan institutions amounted to $467,259 in 1926 compared with $325,593 in 1925. The book value of Morris Plan stocks owned by it were shown as an investment of $6,655,268.06 in the report of January 31, 1927.[15] The capital of all Morris Plan institutions is about $15,560,000. Taking into consideration

[15] Industrial Finance Corporation Annual Report for year ended January 31, 1927.

appreciation in book value since the stock was acquired by the present company, it is likely that this investment represents about one-fourth of all the capital stock of the local companies.

OTHER RELATIONS OF THE PARENT COMPANY TO THE LOCAL INSTITUTIONS

As propagandist of the Morris Plan, the Industrial Finance Corporation promptly put active organizers into the field. With the authorization of its board of directors, they investigate each case of a proposed new local institution, secure stock or make a contract, arranging for payment for the use of the Morris Plan name and other rights. They also organize the new company, teach it Morris Plan methods, and train its officers when necessary. The corporation has the right to audit the books of the local banks. Among its other activities, it has provided service departments for the local banks, attended to legislation, pushing such laws and amendments as were necessary or beneficial to its own or its related companies' interests, and later came to rediscount some trade acceptances and notes for the local banks, but was never a source of funds. In addition, of course, is the task of rendering advice and working toward the standardization of methods as between the local institutions. Among the local banks, opinion is at a variance as to the advantages derived from their relations with the parent company.

The Industrial Finance Corporation does part of its borrowing by the use of collateral trust notes which it has issued since 1920 against trade acceptances rediscounted for the local Morris Plan companies. Practically all of these have been sold through the Morris Plan Company of New York on a commission basis. These notes are in denominations of $100, are not to be sold on the installment plan, are not redeemable until one year from date of purchase, and yield 6%, 1% more than the investment certificates.

This practice, however, now provides a very small part of the corporation's funds, most of which are raised by various methods not particularly connected with the local Morris Plan institutions.

At present the Industrial Finance Corporation is completing an organization for the purpose of aiding Morris Plan clients to own their own homes, by affording them facilities, through the Morris Plan banks, by which they will be enabled to secure mortgage loans at a favorable rate of interest and on amortization terms.[16] Several of the local companies have already begun this activity independently of the Finance Corporation. We will refer to this later.

FORMATION OF THE MORRIS PLAN COMPANY OF NEW YORK

Under the guidance of the Industrial Finance Corporation, there were opened in 1914, four more Morris Plan institutions including the Morris Plan Company of New York.

Because the New York laws were not suitable for the incorporation of a Morris Plan institution, a change was necessary. With the assistance of George Van Tuyle, Alfred E. Smith, and Senator Wagner, Mr. Morris was able to get the Banking code amended in the last few days of the legislative session so that Morris Plan companies could legally operate as investment companies.

Accordingly, after authorization, on December 31, 1914, the Morris Plan Company of New York began business with a capital and surplus of $110,000. The balance sheet of this company as shown on page 33 at the close of its first day of operations is most interesting.[17]

Although the opening of the institution was unheralded and unadvertised, 83 applications for loans were received on its first day of business, over 100 on the second, more than 200 on the third, and between 350 and 400 on the

[16] From *Annual Report,* Year ended January 31, 1927.

[17] *Annual Report of the Superintendent of Banks of New York,* 1914, p. 613.

fourth. On January 11, more than 1,000 were received.[18]

BALANCE SHEET OF THE MORRIS PLAN COMPANY OF NEW YORK AS OF DECEMBER 31, 1914

Assets	
Loans on collateral security	$ 300.00
Due from banks and bankers	109,500.00
Cash	226.00
Total	$110,026.00
Liabilities	
Capital stock paid in	$100,000.00
Surplus fund	10,000.00
Interest paid in advance by borrowers	18.00
Other liabilities, viz: Payments made on installment certificates of investment held as security for loans	8.00
Total	$110,026.00

GROWTH OF THE MORRIS PLAN COMPANY OF NEW YORK

Mr. Morris had been told that his plan would fail in a city the size of New York where people could easily drop from sight. On the contrary, the New York company was a decided success from the start. In its first 2 months of operation, it made 509 loans, totaling $61,780, the average size being $121.38. At the end of that time there were but 7 delinquencies in weekly payments, only 2 of which were for as long as one week.[19] Continued success made necessary in 1915 a capital increase to $500,000 and in 1916 to $1,000,000. In the five-year period ending December 31, 1919, the Morris Plan Company of New York loaned $20,484,446 to 136,003 persons,[20] and by October 1, 1926, 651,949 loans totaling $150,109,173 had been made, with investment certificates outstanding to the amount of $20,070,455.[21] The company is under the supervision of

[18] Moulton, *Principles of Money and Banking,* Part II, p. 347.

[19] *Idem.*

[20] Crowell, Article cited.

[21] Figures taken from advertisement of the Morris Plan Company of New York, in the *Tarheel Banker,* Vol. 5, November, 1926, p. 57.

the New York banking department, has a perpetual charter, and belongs to the American Bankers Association. Its total business, according to a study of 1921, was made up 60% of loans, personal loans being 50% and collateral loans 10%, 30% of investment certificates, and 10% of trade acceptances.[22]

Below is given a comparative balance sheet of the Morris Plan Company of New York, as of December 31, which illustrates its continued yearly growth.[23] The names of the accounts are self explanatory.

COMPARATIVE BALANCE SHEET OF THE MORRIS PLAN COMPANY OF NEW YORK AS OF DECEMBER 31, 1924, 1925, AND 1926

Assets	1924	1925	1926
Co-maker loans..........	$17,963,148	$22,655,905	$28,202,950
Collateral loans..........	1,902,289	2,368,663	2,630,659
Bond investments........	3,173,251	3,992,552	4,709,157
Cash..................	704,842	880,740	1,598,730
Trade acceptances.......	74,270	72,094	53,072
Interest receivable and prepayments............	80,093	90,218	161,855
Lease account..........	3,400	....	....
Total Assets.......	$23,901,293	$30,060,172	$37,356,423
Liabilities			
Capital stock............	$ 1,000,000	$ 1,000,000	$ 1,000,000
Surplus and undivided profits................	585,980	639,922	817,782
Investment certificates....	12,569,849	16,342,445	21,189,965
Paid on hypothecated certificates and trade acceptances............	8,266,032	9,757,705	12,595,586
Notes payable...........	400,000	900,000	....
Discounts collected reserve	625,000	775,000	900,000
Loss reserve............	108,091	131,677	158,091
Interest payable reserve...	300,922	442,239	565,049
Tax reserve............	45,419	51,184	89,950
Dividend reserve........	....	20,000	40,000
Total liabilities....	$23,901,293	$30,060,172	$37,356,423

[22] Lu, *The Morris Plan Company of New York*, p. 26.

[23] Figures for 1924 adapted from Standard Corporation Records; 1926 Vol. Miscellaneous, p. 4398; 1925 and 1926 taken from statements of condition issued by the company.

LEGAL OPINION OF THE MORRIS PLAN

During the year 1915, the Morris Plan fared both well and ill. In September, suit was brought by David Stein, president of the Universal Savings and Loan Company of Norfolk, Virginia, who contended that he was the real author of the so-called Morris Plan, and that Arthur J. Morris wrongfully and unlawfully appropriated the plan to his own use. He sought to restrain the Morris Plan Company of New York from operating the "Morris Plan of industrial loans and investments" and to compel it to make an accounting of all profits.[24] However, the case was dismissed in the United States district court. Still another case in which an injunction was sought against competitors using the Morris scheme was decided adverse to the Morris Plan; while the attorney-general of Ohio held that the plan had no place in Ohio under the existing statutes and that certificates to operate the plan could not be granted legally by the superintendent of banks.[25] Yet the Morris Plan continued to make progress as eleven companies added within the year attest.

The extent to which the Morris Plan is recognized by the courts today may be seen in the case of the *Industrial Finance Corporation* v. *Community Finance Company, et al.*, of 1923.[26] The opinion of Circuit Judge Bryan read in part as follows:

> Appellant has spent large sums in advertising and establishing the names by which banks organized under this plan became known, has built up a profitable business, has protected the public investing in such institutions from being misled and deceived, has established such institutions on a firm basis in the business world, enjoys the confidence of the public, and has carefully avoided creating the impression that such institutions can be organized

[24] "The Morris Plan and the Courts," the *Survey*, Vol. 35, February 12, 1916, p. 568.

[25] Chamberlain, "Constructive and Preventive Social Work," the *American Year Book*, 1914, p. 384.

[26] 294 *Federal Reporter* 870.

as "get-rich-quick" concerns, or as returning more than reasonable profits . . . . According to the averments of the bill, "Morris Plan" banks have acquired such a meaning as to indicate to the public banks organized by the appellant, and are no longer associated in the public mind with the originator of that plan. The principle that protection will be afforded against unfair competition in the use of the trade-mark of a manufacturer which has acquired a secondary meaning has been recognized and . . . . we are of the opinion that this principle . . . . is applicable to the instant case. . . . Undoubtedly the appelles have the right to organize a bank which shall contain every feature that characterizes such a bank as is described in the appellant's bill of complaint. But they have not the right to so describe, represent, or advertise their business venture as that of the appellant. To do so is to perpetrate a fraud upon the public, and to injure the appellants property rights.

In a more recent case, the First Industrial Bank of Denver, Colorado, the local Morris Plan institution of that city, against the Morris Industrial Bank of Denver, the court granted an injunction enjoining the defendant from the use of the word "Morris," or words simulating the same, or imitating the slogan, or using like literature in the city and county of Denver, on substantially the same grounds that Judge Bryan recognized.

ESTABLISHMENT OF OTHER MORRIS PLAN INSTITUTIONS

Under the supervision of the Industrial Finance Corporation, of the Morris Plan institutions existing today, 12 were put into operation in 1915, and 28 in 1916. To take care of its expanded activities, the capital stock of the parent organization was increased on October 17, 1916, to $3,000,000 preferred and $700,000 common stock.[27] In 1917, 28 Morris Plan institutions were organized, and in 1918, 8 others.

During 1917 and 1918, the Morris Plan institutions, particularly in the larger cities, added much to their popularity by assisting in the financing of Liberty Bond sales on the

[27] *Commercial and Financial Chronicle*, Vol. 103, October 21, 1916, p. 1480.

installment plan. A plan was developed whereby a customer of the institution by making a small initial down-payment followed by weekly payments to the bank, could acquire the Liberty Bonds minus the interest coupons for the current year.[28]

In 1919, a year of intense business activity, no Morris Plan institution that exists today was formed, but during the year, the Morris Plan of retail trade acceptances, to which attention will be given later, was developed. Subsequent local development took place when two new companies were formed in 1921, one in 1924, four in 1925, and seven in 1926.

[28] *Ibid.*, Vol. 105, Part II, October 27, 1917, p. 1683; Vol. 106, Part II, June 15, 1918, p. 2529.

V

SUBSIDIARIES OF THE INDUSTRIAL FINANCE CORPORATION

Financing automobile sales. Formation of the Industrial Acceptance Corporation. The plan of insuring Morris Plan borrowers. Formation of the Morris Plan Insurance Society. Growth of the society. The Securities Corporation. The Morris Plan Corporation of America. The Morris Plan Bankers Association.

During its existence, the Industrial Finance Corporation has developed an extensive general finance and acceptance business unrelated to its activities as sponsor of the Morris Plan. Of particular importance in its earlier years was its financing of the sale of Studebaker automobiles.

FINANCING AUTOMOBILE SALES

By 1920 the tendency to purchase automobiles on the time-payment plan had developed to a very great extent. To the individual Morris Plan institutions this seemed to be an open field in financing the individual in the purchase of his car; but no sooner was the movement under way than finance companies sprung up all over the country offering liberal, though expensive, credit terms, until soon some of the finance companies no longer required the automobile dealer's endorsement, but directly financed the individual himself with only the car as security. These individuals might live in California and be financed by a company in New York or New Orleans. The Morris Plan institutions, the but recent radical innovation in the field of finance, withdrew from this line of activity in a very conservative manner, "shocked that credit be extended without endorsement to individuals at great distance and but little

known, even though credit investigations were made."[1]

Because of the growth of this feeling of conservatism, and the belief that the financing of automobiles by the Industrial Finance Corporation was diametrically opposed to its activity as the Morris Plan sponsor, criticism developed and pressure was brought against that corporation especially by the local Morris Plan banks that desired to have the Morris Plan activities separated from those of other financing. The Industrial Finance Corporation could ill afford at this time to give up this source of earnings. The more expeditious plan was to form a subsidiary to carry on this function.

FORMATION OF THE INDUSTRIAL ACCEPTANCE CORPORATION

Accordingly, on November 3, 1924, the Industrial Acceptance Corporation was incorporated under the Virginia laws, and on January 1, 1925, it began business.[2] It was organized to finance the automobile acceptance business, under exclusive contract, for The Studebaker Corporation, acquiring and carrying on the business established five years before by the Industrial Finance Corporation.

The activities of the Industrial Acceptance Corporation are unrelated to those of the Morris Plan banks, except in so far as the Industrial Finance Corporation controls the Industrial Acceptance Corporation and owns some stock in or has contractual relations with the Morris Plan institutions. The procedure of operation of the Acceptance Corporation may therefore be omitted from this study.[3]

THE PLAN OF INSURING MORRIS PLAN BORROWERS

A second subsidiary of the Industrial Finance Corpora-

[1] Boushall, "The Morris Plan—Born a Radical Grown a Conservative," the *Tarheel Banker*, Vol. 5, November, 1926, p. 42.

[2] *Commercial and Financial Chronicle*, Vol. 119, Part II, November 15, 1924, p. 2295.

[3] For a detailed account of its procedure, see letter of Mr. Morris quoted by *Commercial and Financial Chronicle*, Vol. 119, Part II, November 15, 1924, pp. 2294-2295.

tion is the Morris Plan Insurance Society, which is intimately related to the individual Morris Plan institutions.

Quoting in part from the published Proceedings of the Second Annual Convention of the Morris Plan Corporations held in New York City, October 4 to 6, 1916, the purpose of the Insurance Society may be seen along with the method of operation adopted by it.[4]

"A corollary to the Morris Plan—a necessary one, in the opinion of many—is industrial insurance. It is believed that a form of industrial insurance will guarantee larger dividends to the Morris Plan companies, will make it easier to secure co-makers on their notes, and that it will not only be a protection to the companies, but an asset to the borrowers . . . . The local companies will be constituted agents of the Insurance Society . . . . We propose to issue policies taking into consideration the ages of the borrowers." A flat rate would be more desirable but would receive the objection of state insurance commissions. "We shall, however, limit the insurance to multiples of $50, with premiums, payable weekly." This scheme would have an advantage in that the banks would not have to go out and collect the premium as the borrower would pay it along with the installment on his loan once a week. "Another advantage which we have is that our loan, running as it does for only 50 weeks, enables us to write insurance for a period of 50 weeks, and, therefore, we are not in the position of the other insurance societies, that are confronted with the certainty of their risk dying. They know that some day they have got to pay the amount of the insurance. Our prospect is very good for paying only a small part of it, because our insurance terminates inside of one year, and you can all make a pretty good guess, when you look at an applicant, without a medical examination, whether he is a good risk for one year of life. Because of this, we shall eliminate medical examinations on all

[4] As quoted in "Morris Plan Industrial Loan System to Organize Its Own Industrial Life Insurance," in the *Economic World*. Old Series Vol. 99, New Series Vol. 13, Part II, February 3, 1917, p. 169.

amounts under $300, or possibly $500." The insurance will not be compulsory, but will be optional with the borrower. If the insured should die, the obligation will be relieved, and his estate receive that portion of the loan which he has paid to date.[5]

FORMATION OF THE MORRIS PLAN INSURANCE SOCIETY

The Morris Plan Insurance Society was chartered June 11, 1917, as a legal reserve life insurance company by the Insurance Department of New York State. It was authorized to begin business on September 18 of the same year and issued its first policy two months later on November 10, 1917. Its original paid-in capital was $100,000, which was sold to create a surplus of $100,000.[6] In 1924 its capital was increased $100,000 to $200,000 by the sale of new stock at a premium of 20%, thereby causing $20,000 to be paid into surplus.[7] It was organized by the Industrial Finance Corporation with very little organization or promotion expense. The original charter gave it the power to write health insurance, but as amended on December 9, 1917, this facility was excluded. Its stock has a par value of $100 and its authorized capital is $300,000.

This society is strictly a proprietary company, and there is no limit to the profits which may be given its stockholders. Thus far substantial returns have been paid them.[8]

"The company is backed by very high-class interests of substantial standing. All of its policies are written on the term plan. The company has a moderate operating and acquisition cost. It has naturally a low rate of mortality as all policies are term policies, the majority of them being of one year's duration. There is an excellent record of promptly paying all claims. Progress has been made yearly. The

[5] *New York Times,* February 3, 1918, p. 7.

[6] *Insurance Year Book,* "Life Insurance," 1926-1927, p. 160.

[7] *Idem.*

[8] *Idem.*

society accepts insurance up to $500 without medical examination."[9] The society writes nonparticipation life insurance on the ordinary plan, specializing in the term policies. Colored risks are accepted, and women are written on the same basis as men.

Briefly summarized, there are four types of policy offered Morris Plan borrowers:[10]

PLAN AA: Protection for the full amount of the loan, payable in the event of the death of the borrower, or cancellation of the unpaid balance in the event of total and permanent disability.

PLAN A: Protection for the full amount of the loan, payable in the event of death.

PLAN B: Protection for the unpaid balance of the loan, payable at death or in the event of total and permanent disability.

PLAN C: Protection for the unpaid balance of the loan, payable in the event of death.

Rates charged will vary with the plan of insurance in effect.

The Morris Plan Insurance Society has also developed a unique plan for insuring the lives of investors in the investment certificates of the Morris Plan institutions.[11] Under this plan a person can subscribe for a $500 investment certificate to be paid for in 60 monthly installments of $8 each, during which time he is insured to the full amount of his investment. In the event of his death his family or estate will receive the full-paid investment certificate for $500, together with all payments and interest accumulations, less a small amount that is deducted for the insurance. This is a very attractive contract from the standpoints of the investor and the Morris Plan institution.

[9] *Insurance Year Book*, "Life Insurance," 1926-1927, p. 160.

[10] From *The Morris Plan of Industrial Banking*, Copyright, 1926, by Morris Plan Corporation of America, p. 5.

[11] MacGregor, "Lending on Character Plus—the Modus Operandi of the Morris Plan Banks," in the *Bankers Magazine*, Vol. 103, November, 1921, p. 865.

GROWTH OF THE SOCIETY

Authorization to conduct operations has been secured by the Morris Plan Insurance Society in Alabama, California, Connecticut, the District of Columbia, Delaware, Florida, Georgia, Iowa, Indiana, Kansas, Louisiana, Maine, Massachusetts, Michigan, North Carolina, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, Virginia, and West Virginia.[12] Morris Plan institutions located in other states are not able to use the service it offers. The Society has been prohibited from operating in a few states because of its comparatively meagre resources.

The commendable growth of the Morris Plan Insurance Society may be seen from Table 1.[13]

TABLE 1

GROWTH OF THE MORRIS PLAN INSURANCE SOCIETY

Year	New Business		Outstanding Insurance		Assets	Liabilities	Surplus
	Number	Amount	Number	Amount			
1925	80,414	$17,485,105	81,417	$18,177,572	$607,939	$93,704	$514,235
1924	48,703	10,938,925	50,458	11,823,025	471,788	68,711	403,077
1923	34,615	8,090,350	36,824	9,129,799	425,514	46,069	379,445
1922	34,921	8,180,675	34,902	8,437,975	382,614	40,085	342,529
1921	32,366	7,366,200	31,190	7,069,725	308,821	37,028	271,793
1920	25,272	5,092,600	22,283	4,389,100	249,205	26,746	222,459
1919	25,667	4,093,606	24,206	3,810,106	220,940	41,045	179,895
1918	20,817	2,988,925	17,136	2,464,474	205,720	32,743	172,977
1917	1,432	170,950	1,428	167,800	192,564	1,663	190,901

Briefly summarized, statistics for the Morris Plan Insurance Society reveal the following.[14]

Number of policies in force, January 1, 1926............ 81,417
Amount in force, January 1, 1926....................$18,177,575
Total number of policies issued from organization to January 1, 1926.................................... 304,207
Total insurance issued from organization to January 1, 1926..$64,416,335
Total payments to policyholders......................$ 3,326,177

Looking at the results of operation from the three points of view—that of the stockholders, of the lending bank, and

[12] *Insurance Year Book,* "Life Insurance," 1926-1927, p. 161.

[13] *Ibid.,* pp. A-226-227.

[14] *Ibid.,* pp. 468-469.

of the borrowing public, the Morris Plan Insurance Society seems to be a proven success.

THE SECURITIES CORPORATION

Still another subsidiary of the Industrial Finance Corporation is the Securities Corporation, the formation of which was announced by Arthur J. Morris on June 27, 1925, with a capital of $500,000, as a further step in the Morris Plan program for developing the full possibilities of industrial banking.[15] The purpose of this corporation is to originate, underwrite, and sell to the banks of the system, or to sell through them on the partial payment plan, securities adapted to the requirements of Morris Plan clients who may be seeking permanent investments. It was anticipated that there would be specialization in issues secured by improved real estate, or issues of conservatively managed public utilities or industrials.

To date, the Securities Corporation has shown but little if any development. So far as can be determined, only one issue of bonds has been purchased outright by the corporation and offered to the Morris Plan banks, and but few banks availed themselves of the right to distribute this. However, it seems that there is a field here for the Morris Plan that might well be cultivated. Despite the commonly accepted opinion that the disbursement of securities in the smaller denominations cannot be done economically, there are plenty of reasons for believing that it can be done. Such a procedure on the part of the Securities Corporation through the local Morris Plan banks would render an important service to the local clients and to the community served. At the same time, it is likely that the local institutions could substantially increase their earnings, after perfecting the procedure, without a corresponding increase in their overhead costs. It appears that listed securities of high-grade calibre could be handled advantageously.

[15] See the *New York Times*, June 28, 1925, Part II, p. 10.

THE MORRIS PLAN CORPORATION OF AMERICA

During the month of May, 1925, the Morris Plan Corporation of America was organized in New York to take over the Industrial Finance Corporation's interest in the various Morris Plan institutions and to carry on all matters relating to the Morris Plan. The exact relationship between this new off-shoot and the Industrial Finance Corporation is not exactly known, but appears to be of the very closest sort; in fact, the only distinction between the two seems to be in name, whereby the Morris Plan activities are departmentalized and made independent of the other functions of the Industrial Finance Corporation. According to the latest published statement of the Industrial Finance Corporation,[16] the Morris Plan Corporation of America is valued as an asset of $1,000,000, replacing the former showing of trademarks at that figure. This fact further accentuates the lack of distinction between the two corporations.

The functions of the Morris Plan Corporation of America are: to act as licensing agent for industrial banks that operate under the Morris Plan, to promote the organization of Morris Plan institutions throughout the country, to assist in effecting its corporate organization, to furnish it with a full supply of books and of copyrighted forms necessary to operate the plan, together with the services of an expert who installs the system and supervises the management of the bank during the first weeks of its operation.

Thereafter the licensing corporation furnishes the bank with a continuous service which embraces technical advice regarding operation and legal problems, comparative statistics showing the operating results each month of other banks in the system which establishes a standard of reference by which the particular bank can measure its efficiency, and examinations and audits by Morris Plan experts.[17]

[16] For the year ended January 31, 1927.

[17] Morris, "The Morris Plan as a Social Factor," in the *Tarheel Banker*, Vol. 5, November, 1926, pp. 30-31.

A further important service which the Morris Plan Corporation has the power to render, is the providing of a rediscount market in New York City of which the local banks may avail themselves to increase the turnover of their working capital whenever their local credit facilities prove insufficient for their needs.

THE MORRIS PLAN BANKERS ASSOCIATION

Every Morris Plan bank is an autonomous institution, but it was anticipated that through the contractual relationship which it has with the Morris Plan Corporation of America it would become a member of a cooperative family which makes available to each the experience of all and enables the individual bank to avoid the mistakes of other banks while adopting the constructive results of their experiments.[18] The cooperative family exists, but it does not seem to have resulted from contractual relations with the Morris Plan Corporation. By far the larger number of the local banks made their contracts with the Industrial Finance Corporation and are inclined to look directly to it in all matters involving their Morris Plan rights. The cooperative family really exists, not because of contract, but through a voluntary organization of their own—the Morris Plan Bankers Association.

The Morris Plan Bankers Association was formed in 1919 as a voluntary organization of Morris Plan banks, and now has 87 institutions as members. Through the association, cooperative action is possible independent of the Morris Plan Corporation of America. The membership provides the revenue for the activities of the association and for the maintenance of the office of the executive-secretary at St. Louis. Its entire operation is on a nonprofit making basis. By the maintenance of the St. Louis office, contact is provided between the member banks, information is disseminated, the house organ published, and other affairs con-

[18] Morris, Article cited.

ducted. Its affairs are administered by a board of governors, an executive committee, and the officers. Robert O. Bonnell, Vice-President of the St. Louis Institution, is President of this Association.

An annual convention at which problems of mutual interest are discussed is held about the middle of October and lasting two or three days, each bank sending one or two of its officers as representatives.

There are also sectional divisions of the Association which hold more frequent conferences for the discussion of the problems.

VI

RETAIL TRADE ACCEPTANCES AND INSTALLMENT NOTES

How trade acceptances are handled by the Morris Plan. An example of the use of trade acceptances. Method of financing an appliance sale. Advantages of the Morris Plan trade acceptance. Extent of operation of retail trade acceptance plan. Guaranty loans.

THE early part of 1919 saw the institution of the Morris Plan of Retail Trade Acceptances. One of the earliest proposals along this line made by the Industrial Finance Corporation, as organizer of the Morris Plan banks, to the National Association of Electrical Contractors and Dealers, was to finance members of the association in time payment contracts for house wiring and the sale of electrical appliances. After careful study, the National Executive Committee accepted the proposal and heartily endorsed it. The plan is described below.[1]

The essential feature of the standard deferred payment sale of merchandise is a lien on the article sold. In the case of house wiring it is not practicable to secure a lien since it would have to be either in the form of a mortgage on the property or a mechanic's lien, and either of these would be objectionable for many reasons. The only feasible plan, therefore, to finance house wiring, is to base it on the credit of the contractor and the customer and dispense with the lien.

Under this plan, upon completion of the job, the contractor draws a Morris Plan retail trade acceptance on his customer, which, upon being accepted by the customer, is turned over to the Morris Plan bank with the contractor's endorsement and the contractor receives the net proceeds.

[1] Taken from Dennis, "To Finance Time Payment Business," *Gas Age-Record,* Vol. 48, October 15, 1921, pp. 474-475.

HOW TRADE ACCEPTANCES ARE HANDLED BY THE MORRIS PLAN

The conditions under which this paper is handled by the Morris Plan banks follow:

1. The acceptance, when presented to the Morris Plan bank, is to be accompanied by a certificate of completion (signed by the customer) to the effect that the work has been completed and is satisfactory.

2. The customer is to make a cash payment of not less than 10%.

3. The contractor is to deposit 10% of the face value of the trade acceptance arising from the house wiring transaction with the Morris Plan bank, this deposit to be non-withdrawable until the customer has paid the trade acceptance in full. On such deposits the Morris Plan will allow the contractor 5% interest.

4. No trade acceptance is to run for more than 12 months and monthly payments are to be made.

5. The bank reserves the right to decline any particular trade acceptance.

6. The contractor is to endorse his customer's acceptance.

7. The Morris Plan bank discounts acceptances arising from house wiring contracts at the rate of 6% per annum (discount to be paid by the customer) with a service fee (to be paid by the contractor). This service fee, which is the bank's charge for actual service in handling all details of the time payments, varies according to the amount of the acceptance.

AN EXAMPLE OF THE USE OF TRADE ACCEPTANCES

The method of financing house wiring is shown on Figure 1. This figure diagrams a typical house wiring transaction where the job costs $300, and 10% is paid down, with the

balance to be paid in 12 monthly payments as indicated.[2]

The diagram shows the plan when the discount is openly charged to the customer. Some contractors, however, may consider it the better selling policy not to take up the question of discount with their customers. In such cases the

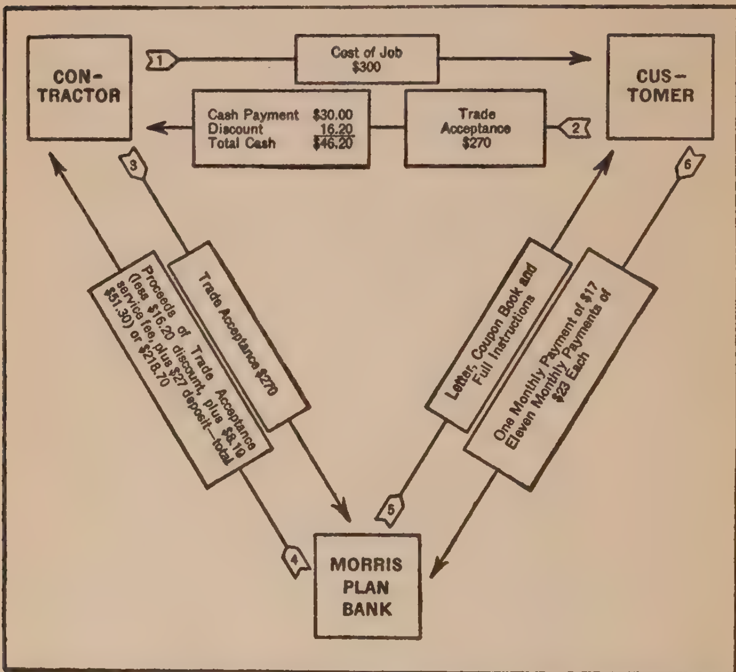


Figure 1: Plan to finance house wiring contracts on time payment basis.

estimate for the job may be increased to cover all charges, and both discount and service fee deducted by the Morris Plan bank from the face of the acceptance.

Under this plan, on a contract of $300, the contractor obtains for immediate use $264.90 which is the cost price less service fee and deposit. The deposit is refunded with 5% interest when all payments are made.

[2] Adopted from Dennis, Article cited, p. 475.

Rates on wiring are:

	Discount	Service Fee
On acceptances of less than $50..........	6%	5%
On acceptances between $50 and $99.....	6%	4%
On acceptances between $100 and $149....	6%	3%
On acceptances of $150 or more .... where the acceptance runs from 7 to 12 months; but in case the acceptance runs from 3 to 6 months, inclusive, the service fee is 2%.	6%	3%

The wiring job costing $300 diagrammed in Figure 1 illustrates the Morris Plan for financing by the retail trade acceptance method. The plan involves three parties: The contractor, the customer, and the Morris Plan bank. The arrows indicate the direction of the actions in financing the deal. The number on each arrow indicates the sequence of the action. For example: The contractor sells to a customer a $300 job. The customer returns to the contractor a cash payment of 10% of the cost (and in this case including the discount) and a trade acceptance for the balance. The contractor retains the cash payment and discount and sends the trade acceptance to the bank, which deducts the discount, the service fee, and the 10% deposit, and returns the proceeds to him. On the same day, the bank sends a letter, coupon book, and full instructions to the customer, who in turn makes his monthly payments to the bank. Thus, the customer has the advantage of buying at a price not much above the cash price on a payment basis; the contractor obtains all his money except a service fee and a 10% deposit which is refunded at 5% interest when the customer has made all his payments; and the bank has made its profit on the deal.

METHOD OF FINANCING AN APPLIANCE SALE

In the sale of washing machines, vacuum cleaners, and other electrical devices made through the Morris Plan sys-

tem of time payments, a lien on the goods is required by the bank. This is provided for in the conditional bill of sale printed on the same sheet of paper as the retail trade acceptance. In other respects the plan is precisely the same as in financing house wiring contracts, except that the service fee is 1% less in all cases, and the dealer is not required to make a deposit.

The chart in Figure 2 diagrams a typical appliance sale.[8]

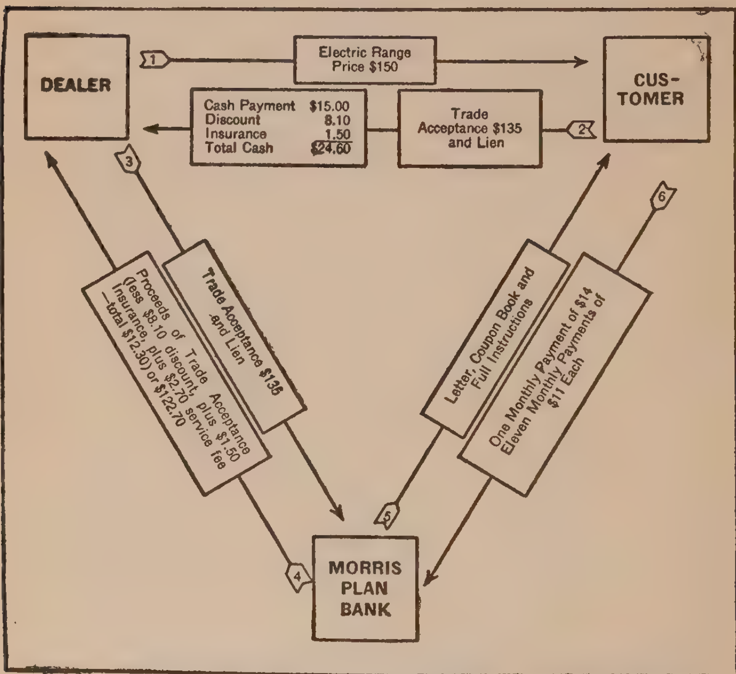


Figure 2: Plan for financing sale of electrical appliances on time payment basis.

Under this plan, on a sale of $150, the dealer obtains for immediate use $147.30, which is selling price less service fee.

In addition to the discount and service fee, there is a charge of 1% on the selling price for fire protection.

[8] The chart also adapted from Mr. Dennis's article, p. 476.

Just as in Chart 1, the arrows and numbers on Chart 2 indicate the direction and order of the various steps in financing the time payment deal. In this case, the dealer sells an appliance instead of a house wiring job. Notice that in place of the deposit given by the contractor to the bank, the dealer turns over to the bank the lien which he has received from the customer. The fee for fire insurance, with the discount, is paid by the customer.

Should the dealer consider it desirable or advantageous, he may increase the price of the goods so that it will cover discount and insurance, and thus establish a "Morris Plan price" for the article, as distinguished from its "cash" price. Should a Morris Plan price be made, this makes any detailed statement of the terms of financing to the customer unnecessary.

The dealer may decide, however, not to increase the price of the articles sold on the Morris Plan of retail trade acceptances so as to cover the cost of the discount fee and the insurance, but to make his sales at cash prices and have the customer pay the cost of carrying the acceptance. This plan is, generally speaking, preferable to an increase in price in selling electrical specialties, for it gives the dealer the opportunity to sell everything on time at cash prices. That is a big advantage.

ADVANTAGES OF THE MORRIS PLAN TRADE ACCEPTANCE

Certain advantages are common to both of the plans that have been described.

1. The dealer or contractor, by receiving cash for this sale or contract at the time it is completed, gets rid of a large amount of unliquidated accounts.

2. The bank collects the installments made by the customer, relieving the dealer or contractor of these details.

3. The bank follows up delinquent payments by means of a regular system.

4. The bank notifies the dealers and contractors of cus-

tomers who are delinquent, in order that the dealer or contractor may promptly bring pressure to bear on these delinquent parties.

5. The bank provides legal service at cost whenever it is necessary to repossess a machine or take other legal action.

6. The bank assists the dealer or contractor, without charge, in making credit investigations of his customers whenever such investigations are necessary.

7. A dealer-contractor may be able to obtain a large amount of business which he could not otherwise secure.

8. The dealer-contractor is able to obtain spot cash for his business.

9. The dealer-contractor may be able to increase the rate of turnover of his capital by securing cash from the bank if increased sales result from the offer of time payments to customers, and thus he may be able to make an addition to his profits.

10. A contingent liability will arise from this business, but Morris Plan records show that time payment financing of this character can be and is done with a relatively small loss from uncollectable accounts.

A standardized form of the retail trade acceptance, approved by the American Trade Acceptance council, was evolved for the use of Morris Plan banks handling this line of business. Since that time, however, it has come about that by far the greater amount of this time payment financing is done by the customer's installment note which the dealer or contractor signs as security and discounts with the Morris Plan institution. The acceptance or note is attached to the conditional sale agreement, or lien.

Under the Morris Plan of retail trade acceptances, it is not necessary for the dealer to keep any record of the account after it has once been turned over to the Morris Plan bank. He may ascertain, at any time, the condition of the account by inquiring at the bank. That customers are usually more prompt in making payments when dealing with a bank than with a retail store is not to be denied.

In case the customer fails to meet a monthly payment, the bank immediately notifies the dealer that payment has been missed, and will set in motion at once its regular procedure in the case of delinquencies. The account will be carried by the bank until about two payments have been missed, whereupon the dealer will be notified of the delinquency and that some settlement must be made. The dealer will have the option of bringing the account up to date himself and look to the customer for the payment, or he can take the obligation off the bank's hands by paying the trade acceptance or note, as the case may be, and handle the account in any way he sees fit after it gets in his possession, or he may request the bank to repossess the merchandise or take any other legal steps that may be considered necessary. In case legal proceedings are instituted, the bank will charge the dealer only the actual cost.

EXTENT OF OPERATION OF RETAIL TRADE ACCEPTANCE PLAN

The Morris Plan of retail trade acceptances, although optional with each individual bank, is being operated extensively and profitably by many of the banks of the system. Fifty-six of the one hundred and two Morris Plan banks existing in 1921 were prepared to handle this business.[4] Figures for a later date are not available.

This system was originally designed to cover the sale of household goods, labor saving devices, electric wiring, and similar conveniences, but has been extended to practically every conceivable thing at present. The plans that have been described above may readily be seen to be adaptable for use in the sale of other articles and services. Rates and methods, it must be remembered, are likely to vary with local conditions in the territory served by the individual Morris Plan banks, but a brief summary may serve to show the general outline of the procedure as most commonly followed.

[4] As listed by Dennis, Article cited, p. 476.

A merchant in good standing both as to his financial credit and his reputation for fair dealing with the public, and who handles goods which may be classed as economic necessities, may enter into an arrangement with the local Morris Plan bank which will enable him to sell his merchandise at near cash prices, yet accord his customers the privilege of paying for it by installments. The main features of this arrangement are as follows:

1. The bank grants the approved merchant a certain credit line and enters into a contract with him setting forth the particulars of the arrangement.
2. The merchant's prospective customer must measure up to the usual Morris Plan standard of character and earning capacity.
3. The customer must make an initial cash payment of at least 10% and accept a Morris Plan retail trade acceptance drawn on him by the merchant or give a note for the balance due and payable in three, six, nine, or twelve months.
4. The customer must subscribe for a Morris Plan installment investment certificate of a denomination equal to the amount of his trade acceptance to be held as collateral security for the acceptance, and agree to pay the installments called for directly to the bank.
5. The customer executes a lien or conditional sales agreement covering the goods purchased.
6. The customer reimburses the merchant for the cost of discounting the trade acceptance and for the cost of insurance to cover the value of the goods.
7. The merchant endorses the trade acceptance and discounts it with the Morris Plan bank.
8. The installment investment certificate, when fully paid, will liquidate the trade acceptance.

Of course, it is recognized that the argument against installment buying is particularly well fitted for use in regard

to this feature of the Morris Plan activities. Criticism of the system as a whole, to be made later, will cover this point.

GUARANTY LOANS

Similar to the trade acceptance business in so far as relations with merchants are concerned, is the "Guaranty Loan," a recent innovation of the First Industrial Bank of Denver, a Morris Plan institution.[5] This loan is one intended to aid the substantial mercantile establishments in liquidating their slow but good accounts. The procedure is as follows: A Morris Plan loan is made to the debtor for the amount of his obligation to the firm or firms that he owes, plus the regular interest charges. The bank then takes as security the "guaranty" of the store or stores and proceeds to forward the regular payment book to the borrower. To date the delinquency has been no greater than on ordinary Morris Plan loans.

[5] Taken from Annual Report of the First Industrial Bank of Denver, December 31, 1926.

VII

THE INDUSTRIAL LOAN COMPANY OF ST. LOUIS

Affiliation of the Industrial Loan Company and the Industrial Savings Trust Company. Industrial banking in St. Louis. Industrial Loan Company's method of lending. Investigation of the applicant and his co-makers. The granting of a loan. Savings accounts. Treatment of delinquent accounts. Employer cooperation in Morris Plan loans. Appreciation of Morris Plan investments by employers. Morris Plan second mortgages.

PERHAPS by taking up an individual Morris Plan company, it will be possible to go far enough into the details of its operations to explain more concretely the Morris Plan method of loans and investments.

The Industrial Loan Company of St. Louis, the sixth Morris Plan institution to be started, began business on January 2, 1913, with a capital of $200,000.[1] Its first day of existence has been described as follows:[2]

> Not one dollar was loaned out on its opening day yesterday by the Industrial Loan Company of St. Louis, popularly known as Col. James Gay Butler's Poor Man's Bank. Hundreds of prospective borrowers showed up at the little ground floor store .... where the bank opened its offices yesterday. Many of them expected to have the money handed right out to them without more ado. They were disappointed .... Most of the applicants were unprepared for the grilling that awaited them .... The application blank asked some intensely personal questions. About 500 blanks were handed out to applicants. Fairfax C. Christian of Norfolk, Virginia, managing auditor of the Fidelity Corporation of America, the parent of the St. Louis Company, guessed yesterday that not more than 75% of these application blanks would come back properly filled out .... The executive committee of the company .... will meet today .... and pass on the applications. In the meantime the pick of the applications will have been investigated by the company's representatives, principally over the telephone.

[1] *St. Louis Post Dispatch*, January 2, 1913, p. 1.

[2] *St. Louis Globe-Democrat*, January 3, 1913, p. 14.

Christian yesterday estimated 60% of the borrowers asked to borrow between $100 and $200, 35% $50, 12% $25, and 3% $500. The vast majority of the would-be borrowers were in the clutches of loan sharks and planned to get out with the aid of the new company.

On the following day, 64 of the applications, amounting to $5.400, were approved,[3] and on January 5, the first loan was made.[4] In 9 days the bank had loaned out approximately $15,000.[5] Business was so good that the bank moved to new quarters after two weeks of operation.[6]

AFFILIATION OF THE INDUSTRIAL LOAN COMPANY AND THE INDUSTRIAL SAVINGS TRUST COMPANY

The Industrial Loan Company is closely affiliated with the Industrial Savings Trust Company, a Missouri trust company. There is, it seems, no stock of the loan company outstanding, its ownership by the Industrial Savings Trust Company being outright. The loans made by the loan company are sold to the trust company as rapidly as they are made with but few exceptions, the payments being handled through the loan company. The trust company, however, handles the savings and time-deposit business. Both companies occupy the same main office, but the trust company does not share the quarters of the loan company branches, nor does the loan company transact any business for the trust company since the Missouri statutes prohibit branch banking. The branches are merely application and pay stations for the loan company. Applications for and payments on all Industrial Loan Company loans may be given out and received at these branches.

The Industrial Loan Company has a branch in East St. Louis, and four branches in St. Louis, three being in outlying sections—North, West, and South, and the fourth

[3] *St. Louis Globe-Democrat,* January 4, 1913, p. 13.
[4] *Ibid.,* January 5, 1913, p. 6.
[5] *Ibid.,* January 11, 1913, p. 14.
[6] *Ibid.,* January 16, 1913, p. 6.

located downtown in one of the large department stores—B. Nugent and Brothers Dry Goods Company. The Nugent's branch was established primarily to handle the retail trade acceptance business, for which the installment note was later substituted. These notes cover the purchase of merchandise from Nugents on the Morris Plan of deferred payments. It is also, along with the other four branches, an application and pay station for Industrial Loan Company borrowers. From these branches, applications are referred to the main office for action.

INDUSTRIAL BANKING IN ST. LOUIS

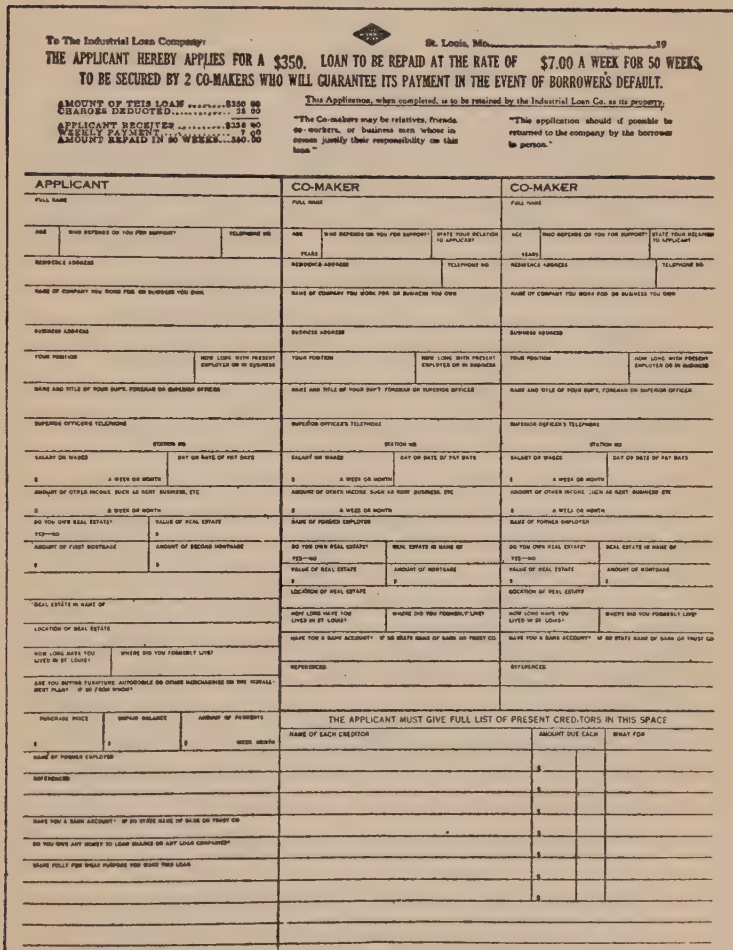
When the Industrial Loan Company began business, there were a large number of loan sharks operating a flourishing business in St. Louis. These have been materially reduced in number, partly, no doubt, because of the activity of the Industrial Loan Company. There are now in St. Louis some 95 other banking companies in addition to the Industrial Loan Company. Thirty-six of the largest of these are allied in a sort of clearing house arrangement in order to check up on a borrower to see that he is not borrowing from each of them to a point where some doubt may arise as to his ability to pay. Mr. Arthur A. Blumeyer, president of the Industrial Loan Company, is the head of this organization for mutual protection.

Whenever their help has been asked by persons who unfortunately have borrowed from loan sharks, the Industrial Loan Company has been able to settle such loans by paying the principal and legal rate of interest to the loan shark and compelling him to refund all usurious interest.

INDUSTRIAL LOAN COMPANY'S METHOD OF LENDING

To obtain a loan from the Industrial Loan Company, the prospective borrower secures from the company, or one of its branches, an application blank and a note for an amount

which corresponds with the size of the loan desired. Figure 3, is the form of application blank for a $350 loan used by the Industrial Loan Company, while Figure 4 is the installment investment certificate and note (combined on one sheet) used for a loan of the same size.



To The Industrial Loan Company: St. Louis, Mo.........................19

THE APPLICANT HEREBY APPLIES FOR A $350. LOAN TO BE REPAID AT THE RATE OF $7.00 A WEEK FOR 50 WEEKS, TO BE SECURED BY 2 CO-MAKERS WHO WILL GUARANTEE ITS PAYMENT IN THE EVENT OF BORROWER'S DEFAULT.

AMOUNT OF THIS LOAN $350 00
CHARGES DEDUCTED.............. 28 00
APPLICANT RECEIVES $322 00
WEEKLY PAYMENT............... 7 00
AMOUNT REPAID IN 50 WEEKS....350.00

This Application, when completed, is to be retained by the Industrial Loan Co. as its property.

"The Co-makers may be relatives, friends, co-workers, or business men whose incomes justify their responsibility on this loan."

"This application should if possible be returned to the company by the borrower in person."

APPLICANT — CO-MAKER — CO-MAKER

THE APPLICANT MUST GIVE FULL LIST OF PRESENT CREDITORS IN THIS SPACE

Figure 3: Application blank for a $350 loan used by the Industrial Loan Company.

Two co-makers who are jointly and severally liable with the maker of the loan in case of his default must be secured by him. The applicant must then in his own handwriting, using ink, fill in the blank spaces of the application, and

INSTALLMENT INVESTMENT CERTIFICATE OF THE INDUSTRIAL LOAN COMPANY

No. ____________

THIS CERTIFIES THAT the undersigned subscriber is the registered owner, subject to the terms hereof, of an Installment Investment Certificate of ______$350.00 ______ of the Industrial Loan Company, St. Louis, Missouri. The registered owner hereof agrees to pay the principal sum within a period of one year in either 50 successive weekly payments, or in 12 successive monthly payments, or in 24 successive semi-monthly payments as indicated below.

$____________ semi-monthly on ____________ and ____________ days of each month for ____________ months, beginning ____________

$____________ each month on ______________________ of each month for ____________ months, beginning ____________

$____________ per week on ______________________ of each week for 50 weeks, beginning ____________

at the office of the Industrial Loan Company, St. Louis, Missouri, until the principal sum for which this Certificate is issued has been paid hereon.

Upon the completion of said payments, this Certificate may be converted into a Full Paid Certificate of Indebtedness of the said Industrial Loan Company, bearing 5% interest, in a like amount.

After the entire amount for which this Certificate has been issued has been paid hereon, the registered owner hereof will be allowed interest at the rate of 4% per annum, computed on the average time for which the said Industrial Loan Company has had the use of the installment payments, provided the said installment payments shall have been made promptly as herein agreed without default, time being of the essence of this contract, and provided further that this Certificate is converted into a Full Paid Certificate of Indebtedness, at the time of which conversion interest will be credited, to be paid, however, only in the event that said Full Paid Certificate of Indebtedness is not redeemed at the request of the registered owner hereof within one year from its date, and to the party who at the time of such redemption is the registered owner thereof.

The amount paid on this Certificate may be withdrawn at any time by the registered owner hereof after 30 days' notice in writing. The said Industrial Loan Company, however, reserves the right to limit the aggregate amount of withdrawal payments on its Investment Certificates in any one calendar month to an amount not exceeding its net receipts of the preceding calendar month, in which event the certificates will be redeemed in the order in which they are presented for payment.

In the event that the installments are not paid promptly on the dates above mentioned, ten cents will be charged for default in the payment of each installment, as stipulated compensation to the said Industrial Loan Company for service performed and expenses incurred, at the request of the registered owner hereof by reason of such default.

The said Industrial Loan Company will not recognize any assignment of this Certificate except such as may be made to it, unless such assignment is endorsed on the original Certificate held by said Industrial Loan Company.

IN WITNESS WHEREOF, the said Industrial Loan Company has caused this Investment Certificate to be signed by its duly authorized officer this ______________________ 192___

INDUSTRIAL LOAN COMPANY,

By ______________________

The undersigned subscriber hereby subscribes for the above Installment Investment Certificate and agrees to the terms thereof.

For value received the undersigned subscriber hereby assigns and transfers the above Installment Investment Certificate, together with all payments which it may now or hereafter evidence and any contract or Certificate into which it may be converted, to the Industrial Loan Company as security and collateral for a loan of the same amount as the principal amount of this certificate, this day made to the undersigned subscriber by the said Industrial Loan Company, on the day and year first above written.

NOTICE

UPON PROOF SATISFACTORY TO THE INDUSTRIAL LOAN COMPANY OF THE DEATH OF THE REGISTERED OWNER OF THIS INVESTMENT CERTIFICATE WITHIN ONE YEAR OF THE DATE HEREOF, AND UPON PAYMENT OF ALL INSTALLMENTS PROVIDED FOR IN THIS INVESTMENT CERTIFICATE DUE AT THE TIME OF SAID DEATH, THIS INVESTMENT CERTIFICATE WILL THEN BE CONSIDERED FULLY PAID BY SAID COMPANY.

____
Subscriber

By ______________________

NOTE

$350.00 INDUSTRIAL LOAN COMPANY

No. ____________

St. Louis, Mo., ______________________ 192___

Fifty-two weeks after date, for value received, we, the undersigned, promise to pay to INDUSTRIAL LOAN COMPANY, or order, the sum of ____________ Three Hundred & Fifty ____________ Dollars at its office with a reasonable attorney's fee, if this note is placed in the hands of an attorney for collection and with costs of collection, and with interest after maturity at the rate of eight per cent per annum, having deposited herewith as collateral security with the terms of which security all the parties hereto are familiar, an Installment Investment Certificate of said Company of the same amount as the principal amount of this note.

And the undersigned further promise, when required by the Company, to increase the amount of the security, either personal or collateral, for this obligation until satisfactory to the Company; and should said security be not increased when so required, or should default be made in the payment of any installment of the Investment Certificate herewith hypothecated, then this obligation, at the option of the Company, shall become immediately due and payable, whether due according to its face or not.

And for the purpose of enforcing payment of the within obligation, the Company shall have full power and authority to sell, assign, collect, compromise, transfer and deliver the said collateral, original or additional, or so much thereof as may be requisite. Such sale may be made where the Company may direct, and may be public or private, with or without advertisement, and with or without notice to or demand on the undersigned or any of them, and the Company may become the purchaser of any or all of said collateral at any such sale.

The undersigned, and each of them, hereby appoint the President or the Attorney of this Company their true and lawful attorney in fact to assign or transfer any or all of the collateral herewith deposited, including any collateral substituted therefor.

The registered holder of said Investment Certificate so deposited may, at his option, at any time within two (2) weeks of the maturity of this obligation, notify the Company of his intention to use the money paid in on said Investment Certificate herewith hypothecated in discharge of this obligation; and in the event of said notice, the Company, as the agent of the said registered holder, is hereby authorized to withdraw, so far as the same may be necessary to discharge this obligation, the amount paid in on said Investment Certificates, and with the cash so received discharge this obligation, paying to the said registered holder any sum not so required. This option, however, accrues only to the registered holder in the event that at the maturity of this obligation, all of the terms expressed in said Investment Certificates herewith pledged have been duly kept and performed. Each of the undersigned hereby assents to the subsequent addition of any signature above or below a signature.

It is understood and agreed that the Company shall not be compelled to resort, for the payment of this obligation, first to the Investment Certificate hypothecated, but may, at its election, require said obligation to be paid by the undersigned, or any of them, and to this the undersigned hereby specifically agree; and should the undersigned, or any of them, pay this obligation, then the Company agrees to assign to the person making such payment, but without recourse on it, the within obligation, and further agrees to deliver to such person the collateral herewith deposited.

And each of us, whether principal, security, guarantor, endorser or other party hereto, hereby severally waives demand, protest, and notice of demand, protest and non-payment. Given under the hand and seal of each party.

______________________ (L. S.)

______________________ (L. S.)

______________________ (L. S.)

$350.00 ______________________ (L. S.)

______________________ (L. S.)

Figure 4: Installment investment certificate and note of the Industrial Loan Company.

answer all of the questions in the column headed "Applicant," and the co-makers must each follow the same procedure in regard to the columns headed "Co-maker." After the application has been filled out, the note should be signed in ink by the borrower and by both co-makers. The application and the note must then be delivered to an application office by the prospective borrower in person. Here it is the task of the representative of the company who does the interviewing, by asking rather pointed and personal questions while making a mental study of the applicant, to arrive at some conclusion as to his honesty and to the benefits he will derive from the loan if it is granted, for the loan must be for some sound purpose.

INVESTIGATION OF THE APPLICANT AND HIS CO-MAKERS

After the interview, an investigation of the applicant and his co-makers is made. Here a great difference between the commercial and industrial systems of lending may be noted. Borrowers from banks in the latter class do not have, as a rule, the apparent prosperity and assets of borrowers from the commercial banks. The majority of industrial bank loans are of small denominations, averaging about $200 in the case of the Industrial Loan Company, and are made in most cases to individuals of moderate means, or to small business firms. Consequently, the credit man of the industrial bank will have to go into much more detail in his investigation than would need be made in the case of a larger loan. Quite often a glance at *Bradstreet's* or *Dun's* and a careful analysis of the financial statement of a large company will suffice to determine the credit to which the applicant is entitled. It is only in a few cases that industrial banks have this information about their applicants. This makes it necessary for credit knowledge to be collected through other channels.

For the purpose of securing credit information, the application blank asks many searching questions of the borrower

and his co-makers. Perhaps the most important of all information to be recorded is the statement of the purpose for which the money is desired. More information of constructive value is likely to be contained in this than in all the other answers.

When the application blank and note have been returned, the company is ready to analyze the situation and determine to what amount of credit the borrower is entitled. The application is very carefully checked and all details are verified, if possible, to determine the correctness of the statements made by the borrower. This investigation is usually made by telephone, in fact, it is only on rare occasions that an investigator must be sent out of the building by the St. Louis institution. Creditors, if any, are communicated with, and their previous experience with the applicant discussed whenever possible. The weekly or monthly income of the applicant should always be considerably more than sufficient to pay for whatever is being financed on the Morris Plan, so as to allow a margin for any emergency that may arise. Above all, the bank must be satisfied beyond a doubt that the character of the borrower is good, for after all, character is equal in importance to earning power in the determination of his credit rating.

If the credit man is satisfied with the ability and willingness of the applicant to pay, an investigation is then made of his co-makers in about the same manner, although the detail involved is usually less. After being convinced by this research that the co-makers are well able to pay the loan in the event that the borrower should meet with reverses, which do come at times, the credit asked for is granted. One to three days are usually required to investigate and approve or reject an application for a loan.

It is considered a point of honor by the Morris Plan institutions never to grant credit to a known or determined bad credit risk even with gilt-edge endorsement, without first notifying the co-makers of the nature of their risk, and then not to make the loan unless they insist.

THE GRANTING OF A LOAN

Loans of all the Morris Plan institutions vary in size from about $15 to $10,000 or more, according to the size of the institution, and the legal limits set by the states in which they operate. They are made to run for as long as one year, while the shortest period is seldom under three months.

For loans up to $1,500 the Industrial Loan Company charges an 8% discount fee (the legal rate in Missouri), but for larger loans the fee is 7%. On loans of $300 or less there is a small service fee, but none is charged for larger amounts. Collateral loans are charged a 6% discount, but no service fee regardless of size. That a service fee is or is not charged is more or less immaterial, for when not charged it is likely to be included in the discount rate which is correspondingly higher, or if it is charged, the discount rate accordingly becomes lower.

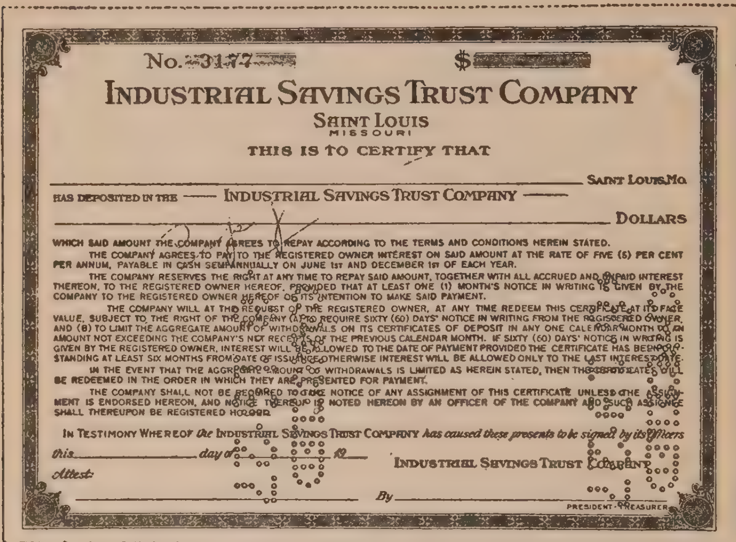
Payments for the loan are arranged to be made weekly, semimonthly, or monthly, whichever corresponds with the pay days of the borrower. Payments made to the Industrial Loan Company are recorded on the stubs of a coupon book held by borrower.

The regular form of savings books are used by the institutions incorporated as banks. Referring to Exhibit 2, it will be seen that the payments are applied on the installment investment certificate to which the borrower has subscribed, and not on the note which is of unvarying amount and is not due until fifty-two weeks after date. The installment investment certificate is collateral for the note. The note becomes due before the year has elapsed only in case of default in payments on the certificate.

Should the loan be paid to the Industrial Loan Company before maturity, it is subject to a rebate of 6% interest for the even months anticipated, except that refunds are not made on any amount less than $100.

All unpaid installments on pledged certificates are considered paid by the Industrial Loan Company in case of the

borrower's death if the certificate, attached to the note, so provides. This relieves administrators, executors, heirs, and the co-makers from liability. The cancellation feature does not apply on loans for more than $1,500, or where the borrower is over 60 years of age, and only when the cancellation clause appears in the certificate. As the Morris Plan Insurance Society is not authorized to do business in Missouri, the loan company bears the losses itself, but does not find them burdensome.



No. [redacted] $ [redacted]

INDUSTRIAL SAVINGS TRUST COMPANY

SAINT LOUIS
MISSOURI

THIS IS TO CERTIFY THAT

________________________________ SAINT LOUIS, MO.

HAS DEPOSITED IN THE —— INDUSTRIAL SAVINGS TRUST COMPANY ——

________________________________ DOLLARS

WHICH SAID AMOUNT THE COMPANY AGREES TO REPAY ACCORDING TO THE TERMS AND CONDITIONS HEREIN STATED.

THE COMPANY AGREES TO PAY TO THE REGISTERED OWNER INTEREST ON SAID AMOUNT AT THE RATE OF FIVE (5) PER CENT PER ANNUM, PAYABLE IN CASH SEMI-ANNUALLY ON JUNE 1st AND DECEMBER 1st OF EACH YEAR.

THE COMPANY RESERVES THE RIGHT AT ANY TIME TO REPAY SAID AMOUNT, TOGETHER WITH ALL ACCRUED AND UNPAID INTEREST THEREON, TO THE REGISTERED OWNER HEREOF, PROVIDED THAT AT LEAST ONE (1) MONTH'S NOTICE IN WRITING IS GIVEN BY THE COMPANY TO THE REGISTERED OWNER HEREOF OF ITS INTENTION TO MAKE SAID PAYMENT.

THE COMPANY WILL AT THE REQUEST OF THE REGISTERED OWNER, AT ANY TIME REDEEM THIS CERTIFICATE AT ITS FACE VALUE, SUBJECT TO THE RIGHT OF THE COMPANY (A) TO REQUIRE SIXTY (60) DAYS' NOTICE IN WRITING FROM THE REGISTERED OWNER, AND (B) TO LIMIT THE AGGREGATE AMOUNT OF WITHDRAWALS ON ITS CERTIFICATES OF DEPOSIT IN ANY ONE CALENDAR MONTH TO AN AMOUNT NOT EXCEEDING THE COMPANY'S NET RECEIPTS OF THE PREVIOUS CALENDAR MONTH. IF SIXTY (60) DAYS' NOTICE IN WRITING IS GIVEN BY THE REGISTERED OWNER, INTEREST WILL BE ALLOWED TO THE DATE OF PAYMENT PROVIDED THE CERTIFICATE HAS BEEN OUTSTANDING AT LEAST SIX MONTHS FROM DATE OF ISSUANCE OTHERWISE INTEREST WILL BE ALLOWED ONLY TO THE LAST INTEREST DATE.

IN THE EVENT THAT THE AGGREGATE AMOUNT OF WITHDRAWALS IS LIMITED AS HEREIN STATED, THEN THE CERTIFICATES WILL BE REDEEMED IN THE ORDER IN WHICH THEY ARE PRESENTED FOR PAYMENT.

THE COMPANY SHALL NOT BE REQUIRED TO TAKE NOTICE OF ANY ASSIGNMENT OF THIS CERTIFICATE UNLESS THE ASSIGNMENT IS ENDORSED HEREON, AND NOTICE THEREOF IS NOTED HEREON BY AN OFFICER OF THE COMPANY AND SUCH ASSIGNEE SHALL THEREUPON BE REGISTERED HOLDER.

IN TESTIMONY WHEREOF *the* INDUSTRIAL SAVINGS TRUST COMPANY *has caused these presents to be signed by its Officers*

this ____________ *day of* ____________ *19* ____

INDUSTRIAL SAVINGS TRUST COMPANY

Attest:

____________________ *By* ____________________

PRESIDENT - TREASURER

Figure 5: Full-paid certificate.

If some other means of payment is available, the borrower may liquidate his loan from this source and exchange his installment investment certificate for a 5% full-paid certificate. This certificate may also be purchased at any time by anyone for cash. Figure 5 shows the certificate used by the St. Louis institution. Note that this is an obligation of the Industrial Savings Trust Company. The Industrial Loan Company cannot receive deposits as a corporation, hence all of this business is handled by the trust company.

SAVINGS ACCOUNTS

Installment savings are handled by the Trust Company in the customary banking manner. A savings pass book of the ordinary type is used to record the activities of the account. These savings accounts are paid 4% interest. The certificate of deposit shown in Figure 5 is really of a time deposit. Interest is paid semiannually and is subject to the usual savings account provisions which provide for a loss of interest on withdrawals made without due notice between dates.

A peculiar feature of the Morris Plan is found in the provisions as to withdrawals. In addition to the customary option of the bank to require 30 days' notice in writing, both the pass book and the certificate bear the notification that the company has the right to limit the aggregate amount of all withdrawals of deposits of all kinds from the company in any one calendar month to an amount not exceeding its net receipts of the previous calendar month. If the aggregate amount of withdrawals is limited as above, deposits will be repaid in the order in which requests for withdrawals of deposits are presented. From this it is seen that the Morris Plan institutions are practically run-proof, if they choose to exercise this option. Hence the safety of the accounts seems to be increased accordingly, although, of course, they may become less liquid. However, no case is known where the option mentioned above has been exercised by the Morris Plan.

TREATMENT OF DELINQUENT ACCOUNTS

A big problem for the industrial banker is the delinquent account, for the circumstances of the borrower and his comakers often make it impossible for the bank to attach property which they do not possess. A considerable item of expense is found in the collection of slow accounts which are estimated to run about 10% of all expenses. As most

Morris Plan institutions have their own system for handling delinquencies, there is no standard method of dealing with them. Besides, each individual case of delinquency is surrounded by circumstances to which a set rule could not be applied.

The Industrial Loan Company charges a 10-cent fine for each delinquency if the payment is $2 or more, and 5 cents if less than $2. When the account has been delinquent three days the borrower is notified, and in ten days notice is sent to the co-makers. Printed notices of the delinquency are followed in due time by demand notices, and if payment is not made then, notice is given that suit has been filed. Of course, the circumstances of each case must be considered and the procedure altered accordingly. Often court action would fail to net anything. There may be circumstances where there is a good and valid reason for such delinquency, and the local bank may feel justified in making an extension. This may be handled by cancelling the old note and certificate and drawing up a new one for the unpaid balance which, in turn, runs for a year. In this manner, the size of the payments has been reduced and may likely be met more easily. That its losses on uncollectables have amounted to less than ¼ of 1% is good evidence of the St. Louis institution's ability to handle the delinquent borrower satisfactorily.

Although the system of fines for delinquencies is probably practiced by most Morris Plan institutions, some believe such a procedure unsatisfactory, claiming that it does not stimulate more prompt payment to any appreciable degree.

EMPLOYER COOPERATION IN MORRIS PLAN LOANS

In performing a valuable service to employees in the extension of loans, the Morris Plan institutions are now receiving the cooperation of employers along this line, for they too are benefited thereby.

Many employers throughout the country have shown their

appreciation of the need of credit facilities for their employees through the formation of loan associations, operated either by the employees themselves or jointly with the corporation. This is one form of recognition by employers of their responsibility for those who work for them, and it is particularly justifiable in communities where there is no other effective machinery in existence to meet this need. This effort may, however, tend to smack of that type of paternalism quite often opposed by the American worker, and which is to be avoided if possible, for credit and philanthropy are usually separate and distinct things.

Morris Plan banks lend to employees of the very corporations which maintain loan associations, either because loan funds are too restricted, or because of the borrower's wish to feel the self-respect of standing on his own feet.[7]

Again, many employers, in Chicago for instance, who have not regularly organized loan funds, make direct loans to their employees. Daily these loans are brought to the Morris Plan bank after they have been made, as it early develops that it is difficult to keep them on a strictly business basis as is the case where the lender makes a loan as a business matter and requires payment of installments promptly. Many employers ask the Morris Plan bank to work out loans made on the personal basis, very often furnishing the bank with endorsement and guaranty, and records show that loans which are slow loans in their hands are promptly met when they are transferred to these institutions.[8]

Other corporations, and this is the larger number, advertise the Morris Plan of lending by placards in their establishments, and foremen and executives, who, by the way, come to the Morris Plan institutions themselves in considerable numbers for loans, are instructed to refer all applicants to the Morris Plan bank. In some of the larger factories in order to save the time and expense of the employee in visit-

[7] Walling, "What About Loans to Employees?" *System (The Magazine of Business)* Vol. 41, June, 1922. Reprint used.

[8] *Idem.*

ing a Morris Plan office, the officers of the corporation have designated one of their own employees as an application clerk and another as a receiving teller. This is done merely to facilitate the operation of the plan, but in every instance the granting of the loan is left entirely with the officers of the Morris Plan and their decision is final. This plan has proven to be quite successful, and in many cases, an officer of a corporation has endorsed the note of a borrowing employee.[9]

APPRECIATION OF MORRIS PLAN INVESTMENTS BY EMPLOYERS

A large engineering concern in New York became so interested in the services of the Morris Plan that its president, in order to encourage some of his older employees to own their own homes, became one of the endorsers on their applications for money for that purpose. This corporation, thoroughly imbued with the importance of inculcating the habit of thrift among its employees, also deposits 10% of the weekly wage of every one of the employees, to be used in the purchase of a Morris Plan investment certificate, the only requirement being that the employee remain with the corporation for at least a period of a year before any withdrawal can take place. This corporation has cut down its labor turnover, has adopted this method instead of a distribution of bonus or other profit-sharing as a reward for loyalty and efficiency, and has secured the stabilizing influence of prospective home ownership.[10]

A large automobile company pays the commissions of its salesmen in Morris Plan investment certificates because they are believed fundamentally sound, have a very fair interest rate, 5%, with no fluctuation in value, are readily convertible into cash, and are in a form that causes the holder to think in terms of ownership instead of money. When the accumulated certificates are delivered to the salesmen at the end of the year they take the place of a bonus or

[9] Walling, Article cited.
[10] *Idem.*

gratuity and encourage the salesmen to look upon this earning as an investment, not as money to be spent in useless buying or in spendthrift indulgence.[11]

MORRIS PLAN SECOND MORTGAGES

An experiment recently undertaken by the Industrial Loan Company of St. Louis is the making of second mortgages, but they have not, as yet, extended their activities very far along this line. Some of the other Morris Plan institutions have, however, gone into this matter of financing on a larger scale. Among these is The Chicago Morris Plan Bank, whose method of operation is described below.[12]

Charges or practices of the second mortgage business have not been standardized nor altogether above reproach in the past. Some of the Morris Plan institutions have set out to correct certain conditions in this business in hope of establishing a charge which is commensurate with the risk involved.

The Chicago Morris Plan Bank has restricted its second mortgage loans to home owners, construing up to a three-flat building as a home. They are not concerned with mortgages on apartment hotels, commercial properties, or anything of a speculative nature, but are preferring loans to the borrower who lives on his property, whether it be a house or one of his flats.

Second mortgages may be negotiated for any period up to three years, the only condition being that no second mortgage loan will be made which extends beyond the maturity of the first. Loans are made of any amount from $500 upwards. Smaller loans may be negotiated upon more favorable terms to the borrower on the usual Morris Plan. It is a condition that the combined first and second mortgages should not exceed 75% of a conservative valuation of the property.

[11] *Idem.*

[12] As explained in pamphlet of The Chicago Morris Plan Bank, *Why We Are Making Second Mortgages and How.*

Interest accrues on mortgage notes at the rate of 6% per annum. Commission charges, deducted in advance from the face of the note, are 4% for one year, 7% for two years, 10% for three years at the Chicago Bank.

All second mortgages are reduced by monthly payments of at least 2% of the principal sum per month in addition to interest. In the event that a loan is completely liquidated during the term of the loan; that is, if the monthly payments will pay out the loan by maturity, a concession in the rate is in some cases allowed.

The ability of The Chicago Morris Plan Bank to finance second mortgages on such favorable rates and conditions is made possible through the generosity of Mr. Julius Rosenwald. Mr. Rosenwald has made available to the directors of this bank a substantial fund to be used exclusively in this second mortgage business. It is Mr. Rosenwald's ideal and the policy of the bank that with an extended experience and a substantial volume, if still further reductions or more favorable conditions may be made in the interest of the home-owner, it will be done. Already a tendency of others engaged in the second mortgage business to lower their rates to meet those of the Chicago bank may be noticed.

The making of second mortgage loans may in time come to play a very important part in the business of the Morris Plan.

VIII

LAWS OF INCORPORATION

State laws governing Morris Plan institutions. The Industrial Bank Act of North Carolina.

In this study, when speaking of Morris Plan institutions, the words "company" and "bank" have been used indiscriminately, but when referring to some particular institution, the correct title has been applied. Whether a Morris Plan institution may be referred to as a bank or as a company depends upon the laws of the state in which it has been incorporated. Operations are conducted in 31 states and in the District of Columbia. The law of each state cannot be specifically cited, but it will be well to describe briefly the regulations required by a few of them.

STATE LAWS GOVERNING MORRIS PLAN INSTITUTIONS

In Missouri, California, Florida, and Rhode Island, all industrial banks or loan companies are incorporated under the general corporation law exclusive of bank commission control. Hence, they are not entitled to use the name "bank" in their corporate title. Investment certificates are sold the same as at other Morris Plan institutions, but they must be careful to call them investment certificates and not give the impression they receive deposits the same as state and national banks.

In Illinois, a Morris Plan institution must be incorporated as a state bank with all the rights and subject to the same regulations as all other banking institutions in that state.

New York, as we have mentioned, passed a special enabling act to permit the Morris Plan to operate therein.

Incorporation is permitted under Article 7 of the banking law which relates to investment companies. While directly under the supervision of the banking department, these institutions are prohibited from calling themselves "banks."

In Massachusetts, the Morris Plan institutions are regulated by the Small Loans Law in loans of $300 and less, but the commonwealth has no jurisdiction over loans in excess of $300. Incorporation is accomplished through the general business laws and such institutions are known as "companies."

The Morris Plan Bank of Washington, D. C., is chartered under the savings bank law of the District of Columbia.

In Connecticut, the Morris Plan banks operate under the Industrial Bank Act which was originally passed to govern the conduct of the Morris Plan. It permits use of the word "bank" in their name, but does not give them the right to advertise as a bank of deposit or to receive deposits. Of course, they handle the investment certificates. They are under the jurisdiction of the state banking commissioner and are examined from time to time by the bank examiners.

In Ohio, the Morris Plan institutions are conducted as Special Plan Banks under Section 710-180 of the Laws Relating to Banks and Trust Companies which reads as follows:

> Any bank organized and doing business as a special plan bank, and which by the terms of its contract with its depositors provides for the receipt of deposits which are not payable unconditionally upon demand or at a fixed time, may in the case of any loan made upon the security of the character and earning capacity of the borrower and of the co-makers or endorsers on the borrower's note evidencing the loan, in addition to discounting interest at the rate allowed by law, require such borrowers as additional security for such loan to make equal periodical deposits in such bank during the period of the loan, with or without an allowance of interest on such deposits, and such transaction shall not be deemed usurious. A special plan bank shall keep only the same reserve as is required of savings banks against all deposits which by the contract with the depositor are not to be paid upon demand or at a fixed time, and no reserve shall be required against deposits hypothecated to secure indebtedness of the depositor to the bank.

Several of the states as Colorado, Michigan, and North Carolina have special laws relating to industrial banks—commonly referred to as Industrial Bank Acts, under which the Morris Plan and similar institutions are incorporated, given powers, and supervised.

THE INDUSTRIAL BANK ACT OF NORTH CAROLINA

Industrial banking has shown remarkable development in North Carolina. This may be due to the fact that North Carolina has become an important industrial state, particularly in the manufacture of tobacco and of cotton goods, ranking second only to Massachusetts in the latter; or it may be due in part to the character of her population whose incomes have always been modest and whose need for credit is in small amounts. There are at present 33 industrial banks in this state, 11 of which are operated under the Morris Plan, and 10 under the Hood System of Industrial Banking.

The Industrial Bank Act of North Carolina places all industrial banks in the state under the control of the corporation commission and subject to examination by the state banking department. Stockholders are subject to double liability as in other banks of that state.

The minimum capital stock with which any industrial bank can commence business is not less than $25,000 in towns of 15,000 population or less, $50,000 in towns between 15,000 and 25,000, and $100,000 in cities or towns whose population exceeds 25,000.

No industrial bank is allowed to make any loan for a longer period than one year, except that loans made upon real estate security may be for a period not exceeding two years. The total liability of any person, corporation, company or firm for money borrowed is not allowed to exceed 10% of the actual paid-up capital and surplus of any industrial bank.

Because loans made by industrial banks are repaid in

small amounts which require extra bookkeeping and personnel costs, the Industrial Bank Act gives such banks authority to charge a service fee for a loan: $1 for each $50, or fraction thereof, up to and including $250, and for loans in excess of $250, $1 for each $250 excess or fraction thereof. An additional fee of $5 may be charged on such loans where they are secured by mortgage on real estate.

The Industrial Bank acts of the two other states cited, Colorado and Michigan, closely follow the principles of the North Carolina Act.

IX

STATISTICAL STUDY OF THE MORRIS PLAN

Development and distribution of Morris Plan institutions. Operations of the Morris Plan System. Average size of the Morris Plan Loan. Average size of the Morris Plan investment certificate. An analysis of Morris Plan loans. Uncollectible losses. Disposition of loan applications. Statistics concerning Morris Plan borrowers.

There are at present in the United States 106 Morris Plan institutions, with 28 branches, operating in 120 cities and 32 states (including the District of Columbia).[1] In the following table are shown the location of these institutions, the date they began business,[2] their capital,[3] and their surplus and undivided profits as of December 31, 1925, except as otherwise noted.[4]

The average total capital of these institutions from January 1 to December 31, 1926, was $15,767,047,[5] as compared with $12,610,000 in 1921.[6] On October 1, 1926, their combined resources exceeded $150,000,000.[7]

In this list of Morris Plan institutions are the names of most of the leading manufacturing cities of the United States, with the exception of Pittsburgh, Milwaukee, Newark, Jersey City, Kansas City, Kansas, Rochester, Omaha, South Omaha, Bayonne, Perth Amboy, Paterson, Peoria, Yonkers, St. Paul, Reading, and Seattle. Attempts have

[1] According to data furnished by W. D. Brown, executive secretary of the Morris Plan Bankers Association.

[2] *Idem.*

[3] Taken from booklet *The Morris Plan.* Copyright, 1926, by the Morris Plan Corporation of America.

[4] *Idem.*

[5] Annual Report of Industrial Finance Corporation, 1926.

[6] Lu, *The Morris Plan Company of New York,* p. 17.

[7] Advertisement of Morris Plan Company of New York, the *Tarheel Banker,* Vol. 5, November, 1926, p. 57.

TABLE 2

MORRIS PLAN INSTITUTIONS IN THE UNITED STATES

Location	Date of Opening	Paid Capital	Surplus and Undivided Profits
Alabama			
Birmingham	7-12-16	$ 100,000	$ 28,702
California			
Los Angeles	9- 1-17	500,000	79,415
San Francisco, 2 offices	5-15-16	209,000	42,162
Stockton	11- 5-17	37,500	31,000
Colorado			
Denver	5-14-13	175,000	9,586
Connecticut			
Ansonia	1- 2-18	50,000	17,525
Bridgeport	4- 9-15	150,000	72,670
Hartford	3-11-15	150,000	72,075
Middletown	1- 2-18	20,000	11,177
New Haven	12-20-14	201,900	101,628
Stamford	3-15-17	75,000	17,810
Waterbury	8-24-15	100,000	42,566
Delaware			
Wilmington	5-29-16	100,000	26,351
District of Columbia			
Washington	7-10-12	200,000	69,360
Florida			
Fort Myers*	2-23-26	50,000	5,250
Jacksonville	6- 5-17	50,000	17,697
Lakeland*	2- 1-26	50,000	5,250
Miami	7-23-25	250,000	23,021
Orlando*	2-11-26	100,000	19,218
St. Petersburg	1-29-25	97,000	13,288
Sarasota*	3- 1-26	50,000	5,950
Tampa	5-17-17	150,000	88,361
West Palm Beach	6-25-25	68,300	7,268
Georgia			
Atlanta	6-11-11	200,000	30,000
Savannah	8- 4-17	50,000	40,397
Illinois			
Chicago	7-27-17	1,000,000	277,609
East St. Louis**	....	....	....
Indiana			
Evansville	4-24-16	100,000	91,879
Fort Wayne	10- 4-15	100,000	46,960
Indianapolis†	10- 1-21	100,000	5,000
South Bend	1-20-15	75,000	24,434
Terre Haute	10-21-16	50,000	1,932
Iowa			
Cedar Rapids	11-14-16	100,000	41,000
Davenport	4-30-17	100,000	21,257
Des Moines	2-18-16	100,000	11,000

TABLE 2 *(Continued)*

MORRIS PLAN INSTITUTIONS IN THE UNITED STATES

Location	Date of Opening	Paid Capital	Surplus and Undivided Profits
Waterloo	4-16-17	60,000	25,216
Kansas			
Topeka	6- 8-17	50,000	24,334
Kentucky			
Louisville‡	1- 4-26	98,900	18,039
Louisiana			
New Orleans	1-22-17	200,000	44,125
Maine			
Portland	8- 9-18	75,000	27,145
Maryland			
Baltimore	2- 1-12	250,000	33,373
Massachusetts			
Attleboro§	....	....	....
Boston	6-14-16	500,000	99,800
Brockton	4- 5-16	100,000	39,580
Chelsea	7- 1-16	50,000	20,375
Fall River	12-20-15	100,000	20,758
Haverhill	2-13-17	60,000	29,370
Holyoke	11-29-15	60,000	44,849
Lawrence	2-13-17	100,000	61,873
Lowell	1- 3-17	100,000	45,740
Lynn	1-25-17	154,400	67,437
Malden	7- 1-16	100,000	35,865
New Bedford	3- 1-16	100,000	57,621
Norwood	8-20-17	25,000	7,969
Pittsfield	12- 2-17	50,000	24,361
Salem	1-22-17	50,000	25,689
Springfield	5- 1-13	150,000	123,427
Taunton	3- 6-17	45,000	21,138
Worcester	5-24-15	100,000	39,176
Michigan			
Detroit, 2 offices	7-15-17	500,000	461,481
Grand Rapids	6-24-18	100,000	103,252
Minnesota			
Duluth	2-21-17	150,000	24,583
Minneapolis	4- 2-17	286,300	64,816
Missouri			
Kansas City	1-18-16	250,000	76,978
St. Joseph	6- 6-16	75,000	91,054
St. Louis, 6 offices	1- 2-13	300,000	195,333
New Hampshire			
Manchester	4- 3-16	75,000	35,547
New York			
Albany	7-29-15	100,000	109,383
Binghamton	5-10-21	62,000	4,107
Buffalo	8- 1-16	200,000	185,414

TABLE 2 *(Continued)*

MORRIS PLAN INSTITUTIONS IN THE UNITED STATES

Location	Date of Opening	Paid Capital	Surplus and Undivided Profits
New York, 10 offices	12-31-14	1,000,000	639,922
Schenectady	6-20-16	100,000	46,893
Syracuse	3- 1-16	125,000	93,197
North Carolina			
Asheville	7-17-16	50,000	32,207
Burlington	10-14-22	25,000	17,500
Charlotte	8- 4-17	200,000	38,947
Durham	3-15-17	100,000	52,132
Greensboro	1- 6-16	100,000	26,071
High Point	11-22-16	74,100	25,502
Newbern	4- 9-17	40,000	2,339
Raleigh	7- 5-17	75,000	12,451
Rocky Mount	9-14-16	40,000	8,000
Winston-Salem	8- 8-17	75,000	30,120
Ohio			
Akron	2- 1-18	100,000	24,093
Canton	4- 6-16	100,000	82,763
Cincinnati	10- 3-18	250,000	81,787
Cleveland	3- 8-16	500,000	389,790
Columbus*	5- 1-26	150,000	30,000
Dayton*	1- 8-26	75,000	15,000
Springfield	6-15-15	50,000	36,162
Toledo	12-19-16	200,000	170,991
Youngstown	12-11-16	100,000	63,425
Oklahoma			
Tulsa, 2 offices	12- 2-25	46,796	21,072
Pennsylvania			
Philadelphia	6- 9-13	250,000	135,000
Rhode Island			
Arctic §	....	....	....
Newport §	....	....	....
Olneyville §	....	....	....
Pawtucket §	....	....	....
Providence, 7 offices	10-30-15	750,000	221,064
Woonsocket §	....	....	....
South Carolina			
Columbia	4- 2-13	22,250	Def. 1,100
Tennessee			
Chattanooga	3- 9-16	155,200	28,244
Knoxville	2-14-16	50,000	23,324
Memphis	2- 1-13	100,000	50,853
Nashville	8-25-14	100,000	9,150
Texas			
Dallas	4-15-18	100,000	38,615
Fort Worth	1- 2-24	46,203	Def. 4,105
San Antonio	6-10-18	100,000	44,464

TABLE 2 *(Continued)*

MORRIS PLAN INSTITUTIONS IN THE UNITED STATES

Location	Date of Opening	Paid Capital	Surplus and Undivided Profits
Virginia			
Lynchburg	7–22–13	150,000	41,810
Newport News‖	....	....	....
Norfolk	3–23–10	100,000	52,578
Petersburg‖	....	....	....
Portsmouth	4– 1–14	50,000	57,389
Richmond, 5 offices	7–17–12	342,700	129,767
West Virginia			
Wheeling	7–23–17	100,000	50,413

* As of opening date.
**Branch of St Louis.
† As of March 31, 1926.
‡ As of February 27, 1926.
§ Branch of Providence, Rhode Island.
‖ Branch of Richmond.

been made to enter a few of these, but the state laws were found unfavorable. Various reasons have made it impossible to enter others, but there still appears to be an opportunity in these cities for further successful expansion of the Morris Plan.

The relative size of the banks may be judged from the amount of their capital and surplus to which the amount of business closely corresponds.

DEVELOPMENT AND DISTRIBUTION OF MORRIS PLAN INSTITUTIONS

Table 3 shows the number of Morris Plan institutions formed during each year of the existence of the system as well as the yearly cumulative totals. There have been others established at various times that have since been liquidated or withdrawn from the system, but statistics of these changes are not available. However, in no Morris Plan institution that has been liquidated have depositors ever lost a cent.

TABLE 3

NUMBER OF MORRIS PLAN INSTITUTIONS FORMED DURING EACH YEAR OF THE EXISTENCE OF THE SYSTEM

Year	Number of Institutions Established	Cumulative Total
1910	1	1
1911	1	2
1912	3	5
1913	7	12
1914	4	16
1915	11	27
1916	28	55
1917	28	83
1918	8	91
1919	0	91
1920	0	91
1921	2	93
1922	1	94
1923	0	94
1924	1	95
1925	4	99
1926	7	106
1927	0	106

Of the existing Morris Plan institutions, 57 of the 106, almost half, are located in the South Atlantic and New England states. Eighty-seven of the 106 are located east of the Mississippi River (Minnesota classed as west) where the greatest industrial development has taken place. Massachusetts has 17 Morris Plan companies. Then follows North Carolina with 10, Ohio and Florida with 9 each, Connecticut with 7, New York 6, and Indiana 5.

Those states which have no Morris Plan institutions are Vermont, New Jersey, Wisconsin, North Dakota, South Dakota, Nebraska, Mississippi, Arkansas, Montana, Idaho, Wyoming, New Mexico, Arizona, Utah, Nevada, Washington, and Oregon. The lack of industrial development may be the explanation in most of these, but why New Jersey, Wisconsin, Nebraska, Washington and Pennsylvania (which has but one) have been neglected is for reasons not so apparent. As mentioned, state laws have had, in some cases, something to do with the matter.

The early development of the Morris Plan took place in the South Atlantic states. In 1915, New England came to the fore in total number, but because of the Florida boom which brought 7 of the 11 Morris Plan companies established in 1925 and 1926 to that state, the South Atlantic states are again the leaders with 30 companies, followed by New England with 27, and the East North Central states with 17.

With the largest development of the Morris Plan in the Fifth Federal Reserve District, The Morris Plan Bank of Richmond was organized and operates, not only as a local bank, but as the regional bank for other Morris Plan banks of that district. The member banks of this regional system have shown remarkable growth through their association with, and the facilities offered by, the regional bank.

Table 4

Statistics Relative to the Loaning Operations of the Morris Plan System

Year	Number of Banks in Operation	Loans During Year		Loans, Cumulative, at End of Year		Average Loan	Index Number for Average of Loans 1915 Base
		Number	Amount	Number	Amount		
1910*	1	323	$ 45,000	323	$ 45,000	$139.32	...
1911	2	Not available		Not available		......	...
1912	5	Not available		Not available		......	...
1913	12	Not available		Not available		......	...
1914†	16	Not available		54,974	6,776,767	......	...
1915‡	27	46,767	5,908,447	101,741	12,685,214	126.34	100
1916	55	104,487	13,992,743	206,228	26,677,957	133.92	106
1917	83	182,620	26,243,594	388,848	52,921,551	143.71	114
1918	91	227,160	35,078,556	616,008	88,000,107	154.42	122
1919	91	313,727	54,660,423	929,735	142,660,530	174.17	138
1920	91	328,987	69,366,468	1,258,722	212,026,998	210.85	167
1921	93	325,614	70,887,325	1,584,336	282,914,313	217.70	172
1922	94	377,745	81,263,256	1,962,081	364,177,579	215.13	170
1923	94	483,800	104,500,000	2,445,881	468,677,579	216.00	171
1924	95	510,500	122,134,985	2,956,381	590,812,564	239.25	189
1925	99	592,100	141,357,171	3,548,481	733,169,735	238.74	189
1926§	106	635,000	166,028,605	4,183,481	899,198,340	251.97	199

* From the *Commercial and Financial Chronicle*, Vol. 121, Part I, October 24, 1925, p. 1999.

† *Ibid.*, Vol. 100, April 17, 1915, p. 1320.

‡ Date for 1915 and following years relative to loans during the year supplied by Mr. Walter D. Brown.

§ *Annual Report* for 1926 of Industrial Finance Corporation.

OPERATIONS OF THE MORRIS PLAN SYSTEM

In table 4 are statistics relative to the loaning operations of the entire Morris Plan system.

At the close of 1926, $62,000,000 were invested by the public in Morris Plan savings.[8]

The Industrial Loan Company of St. Louis, in 1926, made 35,000 loans aggregating $7,260,000.[9] In its 14 years it has made 189,612 loans, aggregating $39,948,152.17.[10] The only Morris Plan banks to exceed this grand total are those in New York and Detroit.

The Morris Plan has accommodated, since its inception in 1910, approximately 4,183,481 borrowers, with the sum of $899,198,340.

The number of loans and the total amount loaned has shown a steady increase from year to year with but one exception. During the depression of 1921, the total number of loans showed a slight decrease, but as the average loan was larger, a slight increase is shown in the amount loaned as compared with the preceding year.

Much of the growth of the Morris Plan until 1918 was due to the initiation of new institutions. But since that time, with a smaller number being established, the expansion is more largely attributable to increased business of the established banks.

AVERAGE SIZE OF THE MORRIS PLAN LOAN

On its face, it appears that the average size of the loan made by the Morris Plan has continually risen, but when compared with the wholesale price level over the same period, it is revealed that the size of the average loan was really lower until 1921 than it had been in 1915, but has since become larger.

The graph in Figure 6 shows the movement of wholesale

[8] *St. Louis Globe-Democrat*, January 2, 1927, Sec. 4, p. 5.

[9] *Idem.*

[10] *Idem.*

prices according to the United States Bureau of Labor statistics, adjusted with 1915 as the base year, compared with an index of the average loan of the Morris Plan system. 1915 was selected for the base year in each case for that is the first year in which definite loan statistics are available.

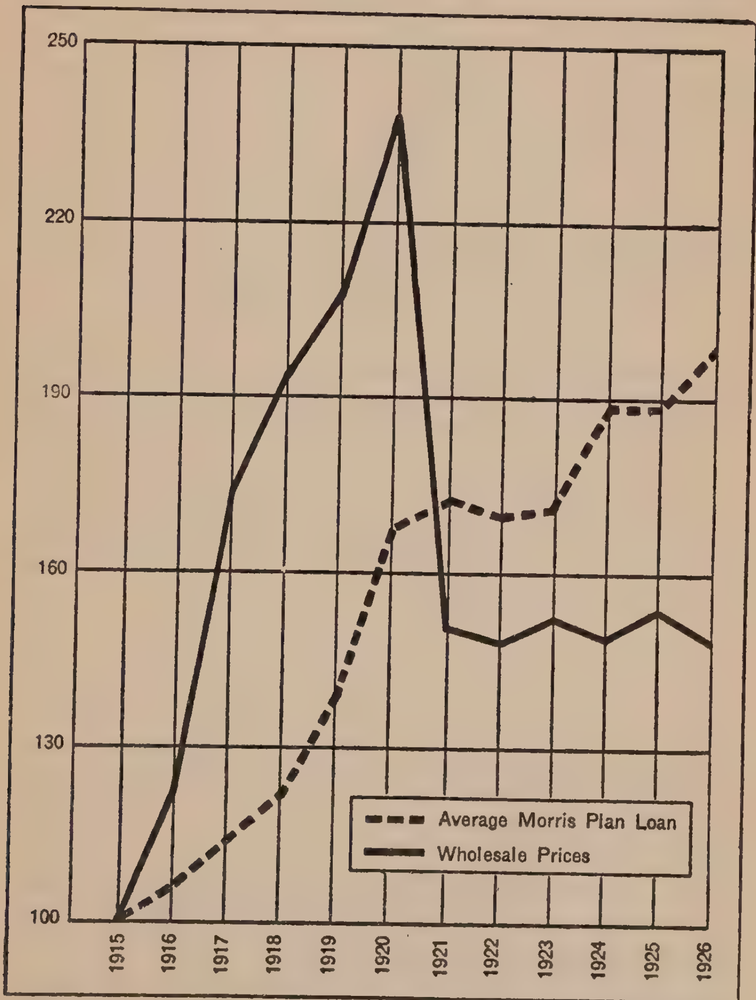


Figure 6: Indices of wholesale prices and Morris Plan Average Loan.

Other things being equal, it is to be expected that the average Morris Plan loan will tend to vary with the level of wholesale prices. This general tendency may be observed, yet there are marked variations that warrant discussion.

As prices rose after 1915, the average Morris Plan loan also rose, but with a considerable lag. This continued until 1920 when prices reached their highest point. At no time between 1915 and 1920 was the average loan as large, relative to the price level, as it was in 1915. In 1920 it was 71% lower.

A possible explanation of this may be the fact that there was a general tendency among the banks to lower the minimum size of their loans. If this were done extensively, a small part of the decrease could be credited this reason.

But the real factor is likely to be found in the limitation of credit by the banks. Undoubtedly they endeavored to hold borrowers in check in this period of prosperity by extending only enough credit to barely cover the necessity for which it was desired. From the graph, it may possibly be deduced that these banks did not become more loose with their credit in this period, in fact, it appears that they really tightened their requirements, and made no attempt to stimulate excessive borrowing.

In 1921 the purchasing power of the average loan was for the first time greater than in 1915. It is probably because of the wise limitation of the amount of the credit extended to individuals to an amount barely sufficient to cover the more necessitous needs, that the average loan did not fall with prices in the 1921 break. From 1921 to 1923 inclusive, the average loan index, though at a higher level than that of prices, showed a marked tendency to vary accordingly. It may be possible that the system of retail trade acceptances which was in full swing by this time, had much to do with producing this marked correlation, for the size of the acceptances would be expected to correspond very closely with the price level.

Although the price index shows a tendency to rise, though with yearly fluctuations since 1921, the average loan index shows a marked rise in 1924 and 1926. One possible factor here is just the opposite of that which caused the lag in earlier years. Whereas it is likely that the effort to reach a poorer class of borrowers in the 1915-1920 period tended to reduce the size of the average loan as compared with prices, the tendency of the banks to reach a higher class of clientele who consequently borrow larger sums is noticeable in the 1922-1926 period. A better class of people may have been a little tighter pinched for credit during 1921 and turning to the Morris Plan banks for aid, may have helped maintain the high figure at that time. With the coming of better times, they quite likely continued their relationship. A second factor tending to raise the average is the writing of second mortgages which are not made from amounts smaller than $500. Finally, the growing use of the Morris Plan by the small business man tends to produce the same effect. It is into this field that the Morris Plan is developing greatly at the present time.

With the average size of the Morris Plan loan at about $252, it seems that the average income of the borrower must be between $1,500 and $2,000 a year for $250 is about all that can be saved from an income of that size.

AVERAGE SIZE OF THE MORRIS PLAN INVESTMENT CERTIFICATE

Statistics as to the average size of the investment certificates of the Morris Plan are not available. However, in the five-year period from December 1, 1914 to January 1, 1920, the average investment certificate of the Morris Plan Company of New York was $177.59.[11] This figure may be expected to be somewhat larger today. Apparently, the small investor is using this form of investment advantageously. With a better understanding of the Morris Plan, this service will be used to a considerably greater extent in the future.

[11] Lu, the *Morris Plan Company of New York*, p. 47.

AN ANALYSIS OF MORRIS PLAN LOANS

A loan under the Morris Plan is made only for some useful purpose, and is regarded as legitimate only when it will increase the borrower's efficiency, put his affairs in better shape, provide for his family, meet the sudden expenses that come from illness or misfortune, or develop his earning power. The Morris Plan advertises that it is the "business of running a family" to which consideration will gladly be given.

Stories telling how the Morris Plan has been a boon to the man who is "up against it" are legion. These examples of the worth of the Morris Plan should not be overlooked by a student of finance, but for the most part are merely pleasant reading. For the purpose at hand, statistics are the more acceptable in learning about Morris Plan loans.

In Table 5 are statistics relative to loans as revealed by the 1926 report of the Industrial Morris Plan Bank of Detroit.[12]

TABLE 5

ANALYSIS OF INDUSTRIAL LOANS

Size	Number	Percentage of Total	Amount	Percentage of Total
\$ 50—\$ 250	19,832	54%	\$ 2,974,813.40	26%
300— 450	10,298	29%	3,606,350.00	31%
500— 950	5,387	14%	3,232,200.00	29%
1,000— 1,450	733	3%	842,950.00	7%
1,500— 1,950	127		190,500.00	2%
2,000— 2,450	71		142,000.00	1%
2,500— 2,950	38		95,000.00	4%
3,000— 3,950	41		123,000.00	
4,000— 4,950	10		40,000.00	
5,000 and over	33		198,000.00	
Total.......	36,570	100%	\$11,444,813.40	100%

For the five-year period 1915-1919, inclusive, the Morris

[12] Tenth annual report. Dated January 11, 1927.

Plan Company of New York reported the denominations of its loans to be as follows:[13]

Size	Number	Amount
$ 50 or under	36,927	$ 1,753,218.00
51— 100	54,214	5,024,937.00
101— 200	28,708	4,941,581.00
201— 300	8,967	2,469,947.00
301— 500	5,006	2,254,911.50
Over $500	2,573	3,684,344.98
Total...........	136,395	$20,128,859.48

The two illustrations, though covering different periods, serve well to point out differences between Morris Plan institutions in the size of their loans. But in both number and amount, loans under $500 are by far the more common in the system.

UNCOLLECTIBLE LOSSES

In the same report of the Detroit bank which has made 436,749 loans for a total of $64,889,825.42, it is to be noted that of these totals, there has been charged off as uncollectible, but 1,261 accounts for a total of $126,860.96 in over nine years of operation. This is less than 1/5 of 1% of the total loaned. Of this amount charged $38,221.99, or 30%, was later collected. This is an admirable record. The rate of loss of all Morris Plan institutions runs low, varying, of course, between institutions, depending more or less on the risk taken in extending loans.

DISPOSITION OF LOAN APPLICATIONS

How the weeding out of prospective borrowers is accomplished may be seen in Table 6 which shows the disposition of applications in the last five years by the First Industrial Bank of Denver.[14]

[13] Lu, *The Morris Plan Company of New York*, p. 99.

[14] Annual report and statement of condition, December 31, 1926.

TABLE 6

DISPOSITION OF APPLICATIONS IN THE LAST FIVE YEARS BY THE FIRST INDUSTRIAL BANK OF DENVER

Year	Issued		Applications Returned		Approved	
	Number	Amount	Number	Amount	Number	Amount
1922	No Record		3,900	$ 739,248	2,770	$520,652
1923	6,646	$1,262,740	5,090	1,119,024	3,703	822,184
1924	7,744	1,483,008	5,989	1,189,452	4,305	828,503
1925	8,457	1,647,176	6,809	1,239,098	4,953	920,207
1926	8,211	1,564,214	6,612	1,303,976	4,753	903,950

Year	Made		Declined		Cancelled	
	Number	Amount	Number	Amount	Number	Amount
1922	2,704	504,643	1,106	211,052	46	12,899
1923	3,716	708,132	1,337	289,829	70	14,027
1924	4,191	830,200	1,632	334,782	152	32,320
1925	4,903	912,302	1,625	372,626	231	46,165
1926	5,164	1,115,217	1,529	224,246	330	75,779

The comparative statement of the Denver Bank showing its volume of loans, properly classified, covering the last five years, follows:[15]

Year	Co-maker and Collateral Loans	Trade Accept-ances	Chattel Loans	Other Loans	Total Volume
1922	$504,643	$ 87,582	None	None	$ 592,225
1923	685,228	150,852	$22,908	$106,000	964,988
1924	803,045	159,481	27,156	17,804	1,007,486
1925	847,844	81,039	64,458	50,950	1,044,291
1926	826,913	88,827	60,477	179,000	1,155,217

The above table, it must be remembered, is for but a single bank and the relationship between the different types of loans may or may not hold true in other Morris Plan institutions.

[15] Annual report and statement of condition, December 31, 1926.

STATISTICS CONCERNING MORRIS PLAN BORROWERS

In Table 7 are statistics relative to borrowers as revealed by reports of the Morris Plan Company of New York for the first six months,[16] and for the first eight months[17] of its operation. Later statistics of this sort in detail are not available for any bank. Though the figures here may be somewhat out of date as compared with conditions today, it is not at all unreasonable to accept them as a guide of the present.

TABLE 7

STATISTICS AS TO BORROWERS AS REVEALED BY THE MORRIS PLAN COMPANY OF NEW YORK

	6-Month Period	8-Month Period
Borrowers		
Men	2,322	3,657
Women	122	159
Average weekly income	$25.83	$25.00
Married	1,813	2,777
Single	620	1,023
Unaccounted for	9	24
Supporting children	......	2,249
Number of children	3,932	5,849
Supporting others	......	2,601
Number of others	......	2,936
Real estate owners	359	491
Reasons for borrowing		
Repay loan sharks	172	213
Repay loans on pawns and chattels	72	123
Clean up small miscellaneous debts	670	942
Illness and births	409	713
Deaths	59	107
Weddings	16	30
Begin housekeeping	15	33
Offset increased household expenses	121	192
Purchase of home	21	28
Personal expenses	......	47
Education	55	76
Begin business	35	45
Business expansion	372	506
Mortgage and interest	......	86
Taxes	74	95

[16] Arranged from the *New York Times*, July 19, 1915, p. 6.

[17] Arranged from "As to the Small Borrower," the *Literary Digest*, Vol. 51, October 2, 1915, p. 749.

TABLE 7 *(Continued)*

STATISTICS AS TO BORROWERS AS REVEALED BY THE MORRIS PLAN COMPANY OF NEW YORK

	6-Month Period	8-Month Period
Rent	28	45
Insurance premiums	43	79
Help relatives	61	129
Vacation		145
Positions or occupations of borrowers		
Clerks	247	370
Post-office employees	245	397
State department and court employees		33
City department and court employees	177	332
New York county employees		26
Firemen	198	304
Policemen	144	201
U. S. employees other than post-office	95	190
Proprietors and partners	344	435
Printers' trades	108	259
Salesmen	113	179
Bookkeepers and accountants		101
Factory operators		100
Managers		100
Agents		59
Secretaries and stenographers		56
Foremen		55
Tailors		53
Inspectors		52
Machinists		46
Artisans		35
Telegraphers and dispatchers		33
Teachers		33
Doctors and dentists		17
Writers		17
Miscellaneous	239	330
Classification According to Employment		
New York City		920
U. S. Government		610
New York County		35
New York State		23
Mercantile		395
Manufacturing		354
Newspapers		232
Printing and publishing		134
Insurance		118
Financial		115
Railroads		114
Public utilities		66
Tailoring		54
Telegraph and telephone		49
Contracting and building		48

TABLE 7 *(Continued)*

STATISTICS AS TO BORROWERS AS REVEALED BY THE MORRIS PLAN COMPANY OF NEW YORK

	8-Month Period
Grocery	36
Express	33
Real estate	29
Steamship companies	20
Restaurant	19
Stationery	18
Oil companies	16
Warehousing	15
Medicine and surgery	14
No business	21
Miscellaneous	346

These figures, as to the occupation of borrowers, may be taken as representative of the Morris Plan institutions, excepting those of governmental employees, which would likely make up a considerably smaller part in any city other than New York or Washington, D. C. The Detroit bank reports loans made to borrowers employed in over 400 occupations in 1926.[18] Morris Plan borrowers come from almost every walk of life.

For the first five years of its operation, the Morris Plan Company of New York summarizes the purposes for which its loans were made as follows:[19]

15,096 to buy auto trucks and to begin or expand business.
19,110 to pay loan sharks, pawns, chattels, debts, and mortgages.
39,097 to buy or pay for furniture, house improvements, taxes, rents, insurance premiums, Liberty bonds, education, vacation, and to aid relatives.
11,851 to defray personal expenses.

From this and the figures shown in Table 7 above, it is evident that the purpose of borrowing is chiefly either to secure more capital to start or expand some business, or to

[18] Tenth Annual Report, First Industrial Bank.
[19] Lu, *The Morris Plan Company of New York,* p. 45.

obtain funds to meet some useful and necessary consumption. Only the expenses classed as personal are questionable as to whether for some economic purpose or not.

Generally speaking, the Morris Plan will lend money to any honest person able to repay it, in any rank or position in life, who needs money for an honest purpose.

There is shown below the report of the Detroit bank as to the nationality of its borrowers in 1926 which gives interesting information:

American, (White)	24,840	Dutch	49
American, (Colored)	769	French	46
Canadian	2,803	Finnish	42
Polish	1,228	Norwegian	40
Russian	1,147	Turkish	37
English	1,054	Welsh	34
Italian	690	Maltese	30
Scotch	496	Belgian	25
German	467	Swiss	21
Hungarian	312	Bulgarian	12
Irish	250	Galacian	9
Austrian	205	Australian	7
Roumanian	178	Spanish	3
Armenian	123	African	2
Swedish	117	Newfoundland	2
Danish	106	Hawaiian	1
Slavish	103	Egyptian	1
Syrian	98	Japanese	1
Greek	83		
			35,459

Below is a statistical picture of the Morris Plan as reported by the Morris Plan Corporation of America.[20]

TABLE 8

A STATISTICAL PICTURE OF THE MORRIS PLAN

	1923	1924	1925	1926*
Number of banking companies	92	94	98	....
Paid capital	$ 13,912,835	$ 14,275,525	$ 14,913,103	$ 15,767,046
Surplus and undivided profits	3,785,075	5,081,801	6,357,788	7,773,095
Investment certificates outstanding	31,020,689	41,899,810	54,787,644	....
Total working capital	58,264,820	71,288,025	88,525,127	....
Volume of loans	103,667,686	122,134,985	141,357,171	166,028,605
Total expenses	5,587,837	6,796,410	8,344,392	....
Net income	2,489,371	2,850,740	3,039,384	....
Dividends paid	886,990	959,513	1,032,379	....

*Annual Report, 1926, of Industrial Finance Corporation.

[20] In booklet the *Morris Plan of Industrial Banking*, Copyright, 1926.

TABLE 9

THE AVERAGE MORRIS PLAN INSTITUTION

	1923	1924	1925
Paid capital	$ 151,226	$ 153,500	$ 152,174
Surplus and undivided profits	41,142	54,643	64,875
Investment certificates outstanding	337,181	450,536	559,057
Total working capital	663,313	766,537	903,317
Volume of loans	1,126,823	1,299,307	1,442,420
Total expense	62,087	73,874	85,147
Net income	27,058	30,653	31,014
Dividends paid	9,424	10,208	10,534
Expense per dollar loaned	5.51c	5.68c	5.90c
Net income per dollar loaned	2.40c	2.35c	2.15c
Net income on paid capital	17.89%	19.97%	20.38%
Dividends on paid capital	6.23%	6.65%	6.92%
Book value of stock (not including reserves)	127	136	143

In Table 10 the banks of the system are grouped according to capital and the average per bank for each group indicated.

TABLE 10

AVERAGE PER BANK BY GROUPS AS OF DECEMBER 31, 1925

	Group 1 $500,000 to $10,000,000	Group 2 $150,000 to $350,000	Group 3 $100,000	Group 4 $75,000 and less
Number of banking companies	7	26	31	34
Paid capital	$ 678,571	$ 203,827	$ 100,000	$ 52,069
Surplus and undivided profits	309,868	78,811	43,788	23,005
Investment certificates outstanding	4,178,223	444,351	310,792	128,011
Total working capital	5,774,647	892,203	536,631	243,227
Volume of loans	8,851,615	1,443,163	885,379	424,318
Total expense	536,841	81,814	51,346	25,223
Net income	179,865	33,218	19,371	9,298
Dividends paid	50,000	12,560	7,468	3,656
Expense per dollar loaned	6.06%	5.67%	5.80%	5.94%
Net income per dollar loaned	2.03%	2.03%	2.19%	2.19%
Net income on paid capital	20.50%	16.30%	19.41%	17.97%
Dividends on paid capital	7.37%	6.16%	7.48%	7.02%
Book value of stock	146	139	144	144

X

CRITICISMS OF THE MORRIS PLAN

Does the Morris Plan fill a necessary place in our banking structure? Is the Morris Plan institution desirable? Competition between the Morris Plan and commercial banks. The basis for Morris Plan rates. Industrial loan departments for commercial banks. Criticisms of the Morris Plan of periodic payments. Morris Plan earnings. Does the Morris Plan really benefit its patrons? Installment buying. The accomplishments of the Morris Plan.

That the Morris Plan of Industrial Banking has survived the harsh treatment always meted out to new ideas, is perhaps the best evidence that it has real merit. A plan that is vicious, or that has no more than small value, cannot live through the early struggle. No group of men will stand behind a new idea, year after year, with their time and money, unless the idea is proving its worth in practical experience. These first few years, harsh though they are, that every new idea must go through, do have the useful effect of destroying almost every scheme that is harmful or not worth while. If the new idea survives these years, and actually gains a substantial patronage, then anyone may feel fairly safe in deciding that the idea meets a real need of the community.

For this reason, one may logically believe that the Morris Plan has proven its right to live and prosper. Were there no other fact to support this belief than that the plan has more than 17 years behind it, that is pretty strong evidence. In all these years, "it has been talked about, examined, discussed and criticized. There is not a nook or corner of the idea which has not been as thoroughly explored by its enemies as by its friends. All the faults of the plan are just as thoroughly known, now, as its virtues. If the merits of the plan did not greatly outweigh its faults, that fact would

long since have been discovered, and the plan would have come to an end long before this."[1] The continued success and steady growth of the Morris Plan tends to prove that it serves an economic need.

DOES THE MORRIS PLAN FILL A NECESSARY PLACE IN OUR BANKING STRUCTURE?

It is argued by some, however, that it is a question whether such organizations as the Morris Plan banks "really perform any service which could not be performed even better by the ordinary commercial or savings banks. There may still be an opportunity for the development of credit-granting institutions which will specialize in making loans to small business men. But it is highly probable that they already have too many facilities for incurring debts which they find it difficult to meet. While much sympathy has been spent on the struggling borrower, in most cases what he needs is not more credit, but more capital, not an opportunity to contract further debts, but a little more common sense in his business methods which will help to put himself on a cash basis."[2]

But the continued existence and growth of the Morris Plan is not the only evidence, nor even the best evidence of its worth. Perhaps its greatest proof is found in the number of people it has served. We have shown how this number has steadily increased year by year until in 1926 the Morris Plan dealt with a total of about 635,000, a very substantial figure considering that it operates in only 119 of our American cities. But back of these cold figures are 635,000 very human stories.

To every one of these people, the Morris Plan has been a helpful friend with its loans of small sums of money. Some of them were in debt to an alarming degree. Others needed

[1] Bennett, "What We Think of Morris Plan," *United States Investor*, Vol. 37, June 5, 1926, p. 19.

[2] Lincoln, *Applied Business Finance*, p. 511.

money badly for some necessary purpose, covering the whole range of needs from a surgical operation to furniture for the house or to funds for an education. Still another part, not quite so numerous, needed small sums of money in their business. Few of this whole number could have obtained the money so easily, so cheaply or with such a form of repayment anywhere else as through the Morris Plan. Quite likely, some of them could not have obtained it at all, from any other source. The bare figures for the number served in 1926 go far to show that the Morris Plan fills a necessary place in our banking structure, and these stories from human experience that are behind the figures, tend to further prove this assertion.

IS THE MORRIS PLAN INSTITUTION DESIRABLE?

With all its apparent merit, is the Morris Plan institution a really desirable factor in the community, like the banks and trust companies, or is it just a necessary evil? Has it lasted through these years and gained in excess of four millions of patrons because it is doing good constructive work, or just because the world has to tolerate some kind of loan shark, and this system of Morris Plan organizations seems a little bit, perhaps a good bit, more endurable than any other kind of loan shark? That is the question, stated rather brutally, which a good many people have asked and are still asking.

Does the Morris Plan bank take advantage of the borrower's necessity to drive a hard bargain with him? If it does, then the Morris Plan is no better than a necessary evil. The world may permit it to live for a time, and may even allow it to become large and prosperous, but in the end something better will be discovered, and the days of the Morris Plan will be numbered. The world does not always stamp out institutions which wrong our people as rapidly as we wish, but it never fails after a time to produce something better that ends the evil, even though it seemed a necessary

evil for some time. Is the Morris Plan just a temporary idea that is good enough now, but that hardly deserves to last indefinitely?

After all these years, and after it has rendered service through more than 4,000,000 loans, the Morris Plan still ranks in many minds in the loan-shark class. The notion persists that whatever profits the Morris Plan organizations make for their stockholders, are obtained by preying upon that part of the community which is least able to bear any such burden.

Is this notion correct? Most of the Morris Plan institutions are earning good profits for their owners. In some cases this profit is rather surprisingly although not excessively large. Are these 106 institutions nothing but a lot of glorified loan sharks, and have they prospered only because they were willing to do something that is not quite respectable? This is a question more appropriate for consideration in a banking study of this sort than in the emotional stories the popular magazines recite about the benefits to borrowers of such a plan.

Let it be noted that there is nothing secret or tricky about the Morris Plan charges. If payments are made as agreed, there are no charges other than the discount. There is not a separate fee for everything done. The discount rate is usually 6% with a service charge, usually 2%, on top of this, or both may be combined in an 8% discount rate. There are a few very rare instances when the total charge is 10%. On the other hand, several of these institutions charge as little as 6% because of good security or favorable local conditions. But the great majority of Morris Plan patrons pay $8 or $9 for each $100 borrowed.

Here is where one group of Morris Plan critics center their attention. It is alleged that if the borrower had gone to a commercial bank his discount would have been 6% with no service charge. If the borrower could go to the commercial bank, this would be true. But could he appeal to the commercial bank for accommodation?

COMPETITION BETWEEN THE MORRIS PLAN AND COMMERCIAL BANKS

In order to determine the specific conditions found in a metropolitan center where one of the more successful Morris Plan companies operates, a questionnaire was sent to all banks and trust companies in the Greater St. Louis area asking certain questions, the replies to which would throw light on this point. The answers were such as would leave one to believe that not many of the Morris Plan borrowers in St. Louis could have secured accommodation through the regular banking channels.

In reply to the question as to what was the essential requirement of borrowers, of 34 answers, 34 required collateral, 24 endorsement by a client, 16 a financial statement, and 15 demanded that the borrower be an established client with arrangement for a line of credit. It seems doubtful if collateral could have been supplied by all of the Morris Plan borrowers, and not a great many would have been able to secure endorsement by the commercial banks' clients. As the number of Morris Plan patrons in business makes up but a small part of the total borrowers, few financial statements would have been forthcoming. And if the prospective borrower had a line of credit at the commercial bank, it is unlikely that he would have borrowed from the Morris Plan institution. This in itself is pretty good evidence that St. Louis Morris Plan borrowers could not have found accommodation at the commercial banks. But there is more evidence presentable.

To the question, "Do you make small loans, that is, loans of $15 to $300?", of 33 answers, 3 said yes (these were outlying banks of smaller resources than the average Morris Plan bank), and 4 said no. The other 26 may be classed as making these loans conditionally. For instance, such replies as "Yes, conditionally;" "Not if we can help it;" "Infrequently;" and "For accommodation only," were received. Hence it seems pretty safe in saying that the borrower of

sums under $300 is generally precluded from credit at the commercial banks.

This question was also asked, "Would you make a loan for a year and allow it to be repaid on the installment plan, that is, so much per week?" Of the 33 replies, 25 were no, and 2 were yes. Those who would allow installments were two country banks whose combined capital and surplus was not $100,000. "Not as a rule" was the answer given by two, while 2 others would accept monthly payments. The remaining two explained how demand loans, or renewals of short period loans could be carried for a year if a payment on the principal was made at various times. Apparently the idea of a yearly loan on the installment basis is not favored by the commercial banks. When asked if the personnel, bookkeeping, and collection costs were considered prohibitive in handling installment loans, of 22 answers, 18 said yes, one said no, one said it did not understand the Morris Plan, and the other said that it sometimes suggested a savings account to meet the loan. This is fundamentally the same method as used by the Morris Plan with its hypothecated certificates.

From the results of the above investigation, it seems proven in more ways than one that most of the St. Louis Morris Plan borrowers could not have gone to a commercial bank for accommodation. The commercial bank would probably have never heard of the borrower, nor would it have any reason for lending him money. It is quite probable that he has never kept enough money on deposit in any bank to earn the right to borrow, and he has not the appropriate collateral. And even if the banks should overlook this important fact, not many of them would care to bother, nor could they afford to bother, with a loan of $50, or even $300. It is well understood that the average loan of the big city banks is considerably over $300. The banks even recognized the necessity of charging more on these smaller loans because of personnel, bookkeeping, and collection costs.

In regard to this matter, our discussion so far has been limited to St. Louis, wherein it is seen that the Morris Plan institution does not take much business from the regular banks. In fact, when the banks were asked if they thought the local Morris Plan company competed with them in lending, only 4 of 33 answered in the affirmative. Three classed the competition as not serious and the remaining 26 gave "no" as their reply, saying that the Morris Plan appeals to a different class of borrowers. As to savings, 17 of 32 believed there was no competition with the Morris Plan, 7 felt that competition existed, but was not serious, while 9 felt that competition was strong.

Apparently the St. Louis banks had not seriously considered the question of competition. In unsecured loans it is doubtful if there is competition. But for collateral loans made at 6% by the Morris Plan, it seems apparent that competition certainly exists. Although opinion as to competition in savings was about equally divided, it seems that the 4% and 4½% rates offered by the Morris Plan undoubtedly attracted some business that would otherwise have gone to the commercial banks.

In New York, or other cities where the commercial banks are larger and minimum balance requirements are higher than in St. Louis, competition between them and the Morris Plan may be expected to be less noticeable. But in smaller communities where the Morris Plan institutions are about of the same size as the regular banks, there is likely to be competition of a strong sort. Hence there are several places where the borrower could secure the accommodation he desired from the commercial banks, but in the larger cities, the St. Louis results will probably hold true. But it is doubtful if there is real competition in the matter of duration and the method of repayment of loans.

THE BASIS FOR MORRIS PLAN RATES

Again referring to the question of rates, it may even be said that what a bank should charge has no connection

whatever with the question of what constitutes a thoroughly fair charge for a Morris Plan organization. The State of Massachusetts, which has made something of a study of small loans, says that 3% a month is not too much to charge for loans of $300 and less. A recent head of the small loans division of the Massachusetts Bank Commissioner's Department, has declared that 3% a month is equitable to all concerned. The Russell Sage Foundation, a New York charitable organization, declares after very thorough investigation, that 3½% a month is not unreasonable. In fact, some 22 states now have passed the 3½% uniform small loans law, relating to loans under $300. An instructor at Harvard University who has published the results of some recent investigations, agrees with the conclusion of the Russell Sage Foundation. Accordingly, a critic of this first group, who thinks the Morris Plan organization is a sort of glorified loan shark because it charges more than the 6% rate of the banks, will find himself rather lonely if he attempts to start an argument along this line.

But leaving out this question, it can be shown that the commercial banks would probably be charging more than 6% if the average size of their loans were as little as $300, and made for the same term, with the same method of repayment, and with the same security as are the Morris Plan loans. Here is a bit of evidence. "In a recent year, a commercial bank of Cleveland, Ohio, loaned $12,000,000, requiring a staff of just 12 employees for the conduct of this business. The Morris Plan Bank of Cleveland loaned $3,000,000 in the same year and required 25 employees. Roughly speaking, the Morris Plan organization needed twice as much help to do one-quarter as much business."[3] In the very nature of things, the investigating cannot be done, all the bookkeeping handled and all the collections made with as small a staff, or as low a cost for other items, if $1,000,000 is being loaned to 3,000 people, as when $1,000,000 is loaned to no more than a few hundred people.

[3] Bennett, Article cited, p. 20.

Or to use smaller figures, the commercial bank in lending $10,000 will make in all probability only from 3 to 10 loans, involving perhaps, two dozen or so entries in the books. To lend the same amount, the Morris Plan bank would make about 35 loans, with from 420 to 1,750 entries in its books, according as the loan is paid in weekly or monthly installments. We have mentioned how North Carolina and other states recognize this and other expenses peculiar to industrial banks, by making provision for a service charge.

On still another side of this discussion of rates, it is found that where the commercial bank may need to make but a small amount of credit investigations for its 3 to 10 loans, because it has known the borrowers for years, or because the borrowers supply financial statements with the necessary information, the Morris Plan bank must investigate at least 105 people in its lending of the $10,000 to the 35 applicants. Both the borrower and the co-makers must be investigated, and but few of the 105 are likely to be known to the credit reporting agencies. With these and collection costs, the commercial bank, inexperienced in this type of business, could not survive at a 6% discount rate.

INDUSTRIAL LOAN DEPARTMENTS FOR COMMERCIAL BANKS

In the past, commercial banks have been wary about entering the industrial loan field, particularly because of the low interest rate which would not allow them a profit on the larger personnel costs, the risk involved, and a lack of knowledge of the correct procedure, except as necessary to accommodate customers.

"Recently, however, several banks in the larger cities have opened up industrial loan departments to cater to the demand of steady working people of good reputation, who have no collateral to put up to secure a necessary advance, but yet desire to deal with financial interests of the highest standing. One of the labor banks in New York City installed such a department. In Louisville, on August 1, 1925,

the Louisville National Bank installed an industrial department.

"It is one of Louisville's oldest financial institutions and, in the past, has always made an especial appeal to the small business man and the wage-earner, realizing that the small balance of today often develops into the large balance of tomorrow."[4]

The plan of the Louisville bank for making industrial loans is identical with that of the Morris Plan, even to the 6% discount rate and 2% service fee,[5] and has been approved by the Comptroller of the Currency.

It is asked, what effects the adoption of a similar plan by other commercial banks will have on the Morris Plan. It does not appear that the Morris Plan organizations need fear much from competition of this sort. Three or four of Chicago's banks have established such departments, yet they cooperate with the Morris Plan Bank of Chicago through joint meetings held for the purpose of discussing various aspects of the small loan business that come to their attention. Should they indiscriminately compete with the Chicago bank, there is nothing to prevent that bank or other Morris Plan institutions, incorporated as banks, from assuming commercial business as their charters permit, but which they have declined to handle as a matter of courtesy to the existing commercial banks.

CRITICISMS OF THE MORRIS PLAN OF PERIODIC PAYMENTS

There is a somewhat more reasonable group of critics who admit that the Morris Plan banks must have more than 6%, but who deny that they should receive as much as \$8 or \$9 discount on each \$100 loaned. These beliefs can be discussed more helpfully if an answer is first given to another group which is not so reasonable. This group has

[4] McNeil, "An Industrial Loan Department for a Commercial Bank." *American Bankers Association Journal*, Vol. 18, February, 1926, p. 547.

[5] *Idem.*

much to say against the periodic payment plan, which is a feature of every Morris Plan loan. To most of those who have really studied the problem, the weekly or monthly payment idea is one of the best features of the whole Morris Plan. Out of the 635,000 people who borrowed on the Morris Plan in 1926, it is not likely that a very large part of the borrowers would have had the will-power to save $100 or $300 during the year to pay back a Morris Plan loan if he were left to his own devices. He must be tied down by a contract, and even by fines, to put aside $2 every week for each $100 that he has borrowed. Without this feature, the Morris Plan would be killed off by its losses in a very short time, or would have to charge ruinous discount rates to meet the expenses of collecting its loans. Moreover, these weekly or monthly repayments accomplish a great deal of good, both for the borrower and for the community as a whole. Even the critic of the weekly payment plan is not disposed to deny that there are benefits derived from it. He could hardly do so, for all around him are people who have worked themselves out of distress, into fairly comfortable circumstances, through these weekly payments to the Morris Plan. What he does argue involves the use of figures. The man who borrows $100 and receives $92, pays back $2 to the Morris Plan every week for 50 weeks. Accordingly, the Morris Plan has $2 at the end of the first week to lend to another customer, $4 by the end of the second week, and so on, until by the thirtieth or fortieth week, it has received much more than half of the loan back, and has had the chance to loan it to some other customer. Therefore, according to this critic, the Morris Plan is collecting interest from two people at the same time, for a large part of the same $100.

In that way the borrower of $100 really gets the full year's use of an average of no more than $50, so that the Morris Plan really has the other $50 to use for making still another loan of $100 in the same way. Thus there is $16 of income for the Morris Plan from each $100 of its money.

Tell this to any bank man and he will inform you differently. He knows something about the matter from practical experience.

He knows, for example, that no one can put these installment payments at work on new loans as rapidly as they are received, and as we have seen, he is also aware of the considerable bookkeeping costs for handling this multitude of installment payments. The experience of banks with Christmas savings clubs has been something of an eye-opener to them. This kind of business usually yields little or no profit, and is worth while only to advertise the bank and to get people in the habit of coming in and getting acquainted. It is a question if any bank can be found paying more than $1.50 of interest on the whole $100 that it receives in installments of $2 per week. Competition among banks tends to compel them to pay every dollar of interest they can well afford. Therefore, it must be obvious that these installment accounts are expensive to handle, and are not a source of large profit. Even so, these banks do not have to go out and collect these weekly payments, if one is missed, as the Morris Plan must do with its loans. If there were substantial profit on this plan, banks would pay a higher rate on installment accounts as they do on ordinary savings accounts. As for the Morris Plan, it falls far short of getting another $8 of income by lending the money paid back by borrowers. Like the banks, with their savings clubs, the Morris Plan has discovered that it simply cannot be done.

MORRIS PLAN EARNINGS

Turning to the more reasonable critic, his complaint is found to be that the service charge of $2 or $3 is too high, and that the Morris Plan should either cut this down, or else give the borrower some kind of interest on his weekly payments, like the moderate rate of interest on Christmas savings clubs. The answer to this complaint depends entirely upon whether or not it is true that the Morris Plan

companies are making too much money. If they are exceptionally profitable, then there is some merit in his argument. But taking them as a whole, it cannot be found that the Morris Plan organizations are too prosperous.

A number of facts seem to prove this. First, there is the fact that they operate in practically every state under the supervision of state commissioners, part of whose duty is to prevent the charging of excessive rates on small loans. It cannot be found that state commissioners are engaged in any crusade against Morris Plan rates.

But there is even better evidence. In 1925 the net income of the Morris Plan organizations, according to their official figures,[6] amounted to $2.15 on each $100 loaned. The Federal Reserve Bank of Boston has made public the combined earnings of all the National banks of New England for 1925.[7] These show that 416 banks earned 1.6% as an average, and that the average for National banks that had $2,000,000 or less to lend ran from 1.7% to 2.1%. The comments of the Federal Reserve bank indicate that 1925 was a period of normal profits for these banks. Now, the figure of $2.15 profit from $100 loaned is not much higher than the figure shown in this report of net earnings on the loanable funds of the banks. It was also shown in the report that the profits tended to increase with an increase in the percentage of time deposits to gross deposits. As time deposits make up by far the larger part of Morris Plan deposits, their earnings, according to the above, might be expected to be higher than the National banks in which the percentage of time deposits is smaller.

The Morris Plan Company of New York reports that although it does upward of $30,000,000 of business each year, it made only $1.49 in 1925 on each $100 loaned.[8] Few of the Morris Plan organizations have an operating

[6] See page 95.

[7] See Curtis, "Where the Bank Dollar Goes." *American Bankers Association Journal*, Vol. 18, May, 1926, pp. 747-749, and Bennett, Article cited, pp. 20-21.

[8] Bennett, Article cited, p. 21.

cost of less than $3 for each $100 loaned. The average is probably nearer $3.50, and some of them have an operating cost as high as $5.86.[9] A Morris Plan organization must attract a large volume of business, and must handle it very efficiently to get its costs down even to an average level of from $3 to $3.50 per $100. Yet that covers only the operating expense. There is another big item of expense, if the organization is to do a large volume of business. It must secure considerable additional working capital through the selling of certificates to investors. That money costs 5% a year. Add the cost of this money to the operating costs, and a very large hole has been made in the $8 a year which the borrower pays. It is only because skillful management of the Morris Plan organizations is able to attract a large volume of business, and to keep expenses down that the Morris Plan rates can be kept at their present low level. The charge seems quite unwarranted that the Morris Plan is charging an unfair rate to its patrons. There does not appear to be any justification for calling these institutions "glorified loan sharks."

DOES THE MORRIS PLAN REALLY BENEFIT ITS PATRONS?

Another very important question must be considered. Does the Morris Plan really benefit its patrons, or does it just hold their chins above water for a time, and then let them sink to whatever is their fate? After all, that is the vital question. The business of by far the larger portion of Morris Plan patrons is just the age-old business of running a family. Do they run this business more successfully, after dealing with the Morris Plan?

We have seen what happens to every person who borrows at a Morris Plan office, but it will be well to recall certain salient features of the procedure. First there is the interview in which the borrower is asked some very searching

[9] *Idem.*

questions. The primary aim of this is, of course, to discover if the loan will be paid. The Morris Plan institutions have learned a profound truth from their years of experience, and have other aims as well. They know that unless a loan is good for the borrower it is bad for the Morris Plan. Therefore, they insist in every instance on knowing what the borrower proposes to do with the money he desires, and that his income will permit him to put aside the necessary weekly or monthly payments on the loan. By limiting credit only to the purchase of necessities, the purchase of luxuries is discouraged. Of course, what is a luxury for one person may be a very commendable purchase for another. On the other hand, even though the loan is wanted for a very commendable purpose, the Morris Plan bank may be obliged to refuse the loan, because it would be too heavy a burden for the individual to assume. The very self-interest of the Morris Plan compels it to reject loans that the borrower should not make.

But only half of the story is told here. It is a curious fact that of all the people upon earth, Americans use the least system in the business of running a family. Because of this fact, many of our savings banks are hiring budget experts to advise their depositors. The head of the average American family does not know how much he should save, nor how much he could save if he tried.

Suppose he secures a loan from the Morris Plan. He puts himself under obligation to find the $2 out of each week's income for paying off each $100 he has borrowed. From the force of necessity, he must arrange his other affairs so that he can do this. The result should be the creation of a habit. Under the spur of necessity, he finds that he can put aside this amount every week, and accordingly there is a very considerable prospect that he will continue to save this amount, after the loan has been paid.

The Morris Plan has proven for thousands of people the taskmaster who has shown them what they really can save if they try, and has bred in them the habit of so doing. The

fact that thousands of those who come first as borrowers, do ultimately become owners of interest-bearing Morris Plan obligations, is a profound piece of testimony. As a matter of fact, borrowers who indicate, by coming back yearly for new loans, that they are not getting their affairs in better shape, are closely examined to ascertain if they are undesirable customers, and if so, their loans are likely to be declined. While there are no figures to show just how many of the 4,000,000 people, who have borrowed from the Morris Plan, have learned in this manner to live on a little less of their income and to put a few dollars each week or each month into a savings fund, there appears to be an abundance of evidence that the number is large. The Morris Plan graduates are the best evidence that the plan has a worthy place in the banking machinery of this country.

INSTALLMENT BUYING

Much has been written and said, during the last two or three years, on the evils of installment buying. The reason is that an intensive eagerness has developed among makers and dealers of a wide range of products to push their sales among people who simply can not buy the goods outright, but must pay a portion down, and then pledge themselves to pay so much per week for many weeks to come. Critics of this development seem to agree that the real curse of this situation is not so much that our people are being lured into buying too many luxuries, as that they are loading themselves down with promises of payments too heavy for them to bear. If credit is obtained from the Morris Plan by the borrower for the purchase of some of these commodities, he must show that it is a good thing for him and not beyond his means before the loan is granted. And with cash he can usually buy at a lower price. From this point of view, the Morris Plan appears to be a possible cure for the installment evil.

But the system of retail trade acceptances or installment

notes used by the Morris Plan banks seems to have an effect just the opposite. This method has been described whereby the customer gives the dealer, for his purchase, an installment note or acceptance which is discounted at the Morris Plan bank. In spite of the fact that the dealer in discounting the note must assume a contingent liability and is thereby bound to limit the credit he extends, the factor of salesmanship will induce him to stretch this as far as possible, and an overexpansion of installment buying is likely to develop. Undoubtedly, this system is advantageous to the dealer in relieving him of the banking function and in giving him ready cash. This enables him to sell his goods nearer a cash price, but installment buying is consequently increased. It is with the dealer that the extension of credit rests, and he is likely to be more lenient with it than the Morris Plan bank would be.

THE ACCOMPLISHMENTS OF THE MORRIS PLAN

Industrial banking, of which the Morris Plan is the outstanding exponent, has undoubtedly extended credit facilities to a great number of worthy people who are denied accommodation by the commercial banks. The Morris Plan of Industrial banking may properly be called a contribution to social progress with important humanitarian by-products. It undoubtedly builds up the self-respect, the manhood, and the productive capacity, and stimulates the ambition of the industrial worker, not only by relieving him of financial harassment and discouragement by lending him money and teaching him to save, but by revealing to him the fact that his capacity to produce has a capital value, and that a good character makes it negotiable.

The Morris Plan has the endorsement of such financial organs as the *Commercial and Financial Chronicle, Wall Street Journal, Journal of Commerce, New York Times Annalist, United States Investor, American Banker, Bankers' Magazine,* and *Banking Law Journal,* as well as such repre-

sentative periodicals as the *Saturday Evening Post*, *American Magazine*, *Everybody's*, *Outlook*, *Independent*, *System*, *Nation's Business*, *Youth's Companion;* and such newspapers as the *New York Times*, *Herald*, *World*, *American*, *Tribune*, *Globe*, and *Evening Post*, *Boston Evening Transcript*, *St. Louis Globe-Democrat*, and *Post-Dispatch*, and *London* (England) *Spectator*.

When the St. Louis commercial banks were asked what they thought of the Morris Plan, only two of twenty-seven replies could be construed as being anything but commendatory of it.

A list of directors of any Morris Plan institution is, in itself, strong proof that the local Morris Plan bank does not exist to fatten its stockholders at the expense of the poor, for they are usually substantial citizens who have acquired their wealth in some other line of endeavor. These men are banded together because they see in their organization a reputable kind of business which will yield them a fair return, and at the same time, distinctly benefit the community by promoting the interests of the individual who comes to them for assistance.

APPENDIX

Since the writing of this paper an important development in the field of industrial banking has come to the author's attention. It has caused considerable comment in financial circles and has had the effect of placing the industrial banking business on a more favorable basis than it has heretofore occupied.

Within the last few months the National City Bank of New York, America's largest banking institution, has announced the opening of a small loans department. The principles and methods followed in making these loans are essentially the same as those developed and employed by the Morris Plan.

Reference has been made to the establishment of similar departments in other national and state banks, but it has been the entrance of the National City Bank into this field that has put a real mark of approval on industrial banking. It seems that little doubt can now be retained concerning the existence of a place in our modern credit structure for such a system as the Morris Plan.

In addition, it is well worth noting that a stage of acute competition has developed in the field of industrial banking. Being firmly established in the field with the advantage of an early start, adequate capital, and good management, the Morris Plan institutions are particularly well situated to meet this new condition. But it is a condition that they must recognize and strive to overcome if their past success and leadership in the field of industrial banking is to be maintained.

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